Prince Edward Island

Budget Highlights 2000-2001

A Balanced Agenda:

Investing in our Health Care, Education, Jobs and Communities for the New Millennium

Presented by
The Honourable Patricia J. Mella
Provincial Treasurer
March 17, 2000

Prince Edward Island

Budget Highlights 2000-2001

A Balanced Agenda

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Prince Edward Island

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A Balanced Agenda: Preparing Islanders for a Better Future

Overview

Commitments

- Health Care
- Education
- Job Creation
- Community Development
- Lower Taxes

This budget is a budget for the people. It is a plan that sets out our vision with extensive investments in health care and education. It supports the steps our Government is taking, in partnership with our community, to develop a stronger and more competitive economy that creates jobs and stimulates growth.

Patricia J. Mella
Provincial Treasurer

Prince Edward Island
CANADA

Fiscal Responsibility

- Our commitment to manage our financial affairs
- Surplus budgets in each of the last three years
- Responding to community needs

		2000-2001 Budget Estimates ($ millions)	1999-2000 Budget Forecast ($ millions)
Revenues		882.8	893.3
Expenditures	Current	852.8	831.0
	Capital	29.8	45.7
	Special Funds	—	12.5
Total Expenditures		882.6	889.2
Budgetary Surplus		**0.2**	**4.1**

Special Purpose Funds

Special funds are set aside from the 1999-2000 surplus to benefit health care, education, environment and job creation.

Sustainable Resource Support Fund	$ 1,000,000
Education Stabilization Fund	1,500,000
Health Care Stabilization Fund	6,500,000
Development Fund	3,500,000
	$12,500,000

Tax Relief

Lower Taxes

- Reduction of Provincial Income Tax rate from 58.5 to 57.5 percent – additional to the rate decrease in 1999
- New Low Income Tax Reduction program to aid low income Island taxpayers
- Tax savings resulting from federal measures passed through *in full* to Islander taxpayers

Tax Saving Examples

	Single Pensioner	Single Parent One Child	Married Couple Two Children	
Income	$15,000	$18,000	$20,000	$45,000
A. General Rate Change	$11	$7	$9	$60
B. Low Income Tax Reduction	$250	$331	$251	-
C. Induced Provincial Changes	$23	$42	$42	$261
Total Provincial Reductions	**$284**	**$380**	**$302**	**$321**
Total Federal Reductions	$39	$72	$72	$448
Provincial & Federal Reductions	$323	$452	$374	$769

- 2000 Budget measures will reduce income taxes for Islanders by $12.2 million.
- 1999 Budget measures reduced income taxes for Islanders by $6.8 million.
- Two-year provincial tax measures reduce Prince Edward Island income taxes by 12 percent annually.
- Combined with federal tax reductions, Islanders will pay $41 million less tax in 2001.

Health and Social Services

Achievements

- Creation of 85 new full- and part-time nursing positions
- Opening of the new Provincial Addictions facility
- Opening of the new PEI Cancer Treatment Centre
- Introduced a Health Care Futures student employment program
- Introduced a new chicken pox vaccination program
- Increased welfare assistance rates for food and introduction of a second school allowance benefit
- Increased assistance for day care to support children with special needs
- Introduced a Family Health Benefit Drug Assistance Program
- Introduced election process for regional health boards
- Selected site for the new East Prince Health Facility and led comprehensive community-based planning process for the new facility
- MS Drug Program developed and introduced
- The physician complement has increased by 12 since 1997
- All hospitals maintained and funding increased

New Initiatives

- Enhancement to the Cancer Treatment Centre by the addition of a Linear Accelerator Unit
- Support improved health care services by the purchase of an MRI Unit

Health and Social Services

New Initiatives continued

- Construction to begin on the new East Prince Health Facility
- Commitment of $2.5 million toward the equipment fund-raising drive of the new East Prince Health Facility
- Additional funding of $1 million to support social assistance clients
- Funding commitment of $800,000 for four new physician positions
- Physician recruitment and training strategy – $4.2 million over four years
- Development of a new nursing recruitment and retention strategy
- Additional funding of $1.1 million for nursing homes and community care facilities
- Increased funding for health promotion initiatives – tobacco reduction, diabetes, cervical cancer and health information – $402,000
- Partnership in health research funding of $300,000
- Additional funding of $250,000 to non-profit community organizations
- Funding of $250,000 has been allocated to support a new Provincial Children's Mental Health team
- Funding of $100,000 has been allocated to increase nursing home residents' comfort allowance

Education

Achievements

- Additional funding of $1.4 million to Holland College to cover its operating deficit
- Additional funding for 8.5 FTE teacher assistants
- Secured funding of $245,000 to provincial libraries for computer equipment and infrastructure
- Creation of a Community Services Bursary program to recognize volunteer efforts of post-secondary students

New Initiatives

- Province-wide publicly-funded kindergarten program will be implemented – $1.5 million
- Increased post-secondary funding to the University of Prince Edward Island of $1.2 million and Holland College of $1 million with a further $1 million contribution to each institution for the following two years
- Increased student assistance by $1.3 million
- A $3 million investment in elementary and secondary education. Some major items are as follows:
  a) Increase in School Board Grants for rising fuel costs – $500,000
  b) Increase in School Board Administrative Grants – $100,000
  c) Increase grants to School Boards for classroom program materials – $80,000
  d) Increase for School Board Staffing for teacher assistants and administrative support in schools – $390,000

e) Additional investment in Internet for schools – $300,000

f) Investment in resources for school safety – $150,000

g) Further investment of $225,000 in the development of the Transitions initiative, on top of the initial investment of $150,000

h) Additional funding to French First Language Schools of $320,000

i) Introduction of a new math curriculum for $400,000

j) Providing $100,000 for in-service training to teachers

k) Additional funding of $350,000 for special education initiatives

- Secured $4 million contribution through the Labour Market Development Agreement to provide training primarily through Holland College
- Additional investment for Public Library book acquisitions – $50,000
- Funding for the Hosting of the Acadian Games – $75,000
- Investment in PEI Active Living initiative – $100,000
- Increased funding to the PEI Council of the Arts – $40,000
- Increased funding for Sport PEI – $25,000

Job Creation/Community Development

Additional funding provided as follows:

• Continued Agriculture and Environmental Conservation Program (AERC) Funding in support of PEI Food Strategy	$1,000,000
• RCMP Resources	$350,000
• Replacement of Portage Visitor Information Centre	$350,000
• Food Technology Centre Funding	$322,000
• Maritime Beef Marketing Initiative	$200,000
• Tourism Marketing and Development	$225,000
• Environmental Industries Initiative	$200,000
• PEI Lobster Strategy	$200,000
• Family Legal Aid Funding and Child Support Guidelines	$150,000
• Enhancement to PEI Web site	$125,000
• 911 Resources	$100,000
• Mercury/Acid Rain Action Plan	$73,100
• Aquaculture Leasing Program	$50,000
• Advisory Council on the Status of Women	$17,500

Summary Statistics

	1998	1999
Population on 1 July (in '000s)	137.0	138.0
Personal income per capita*	$19,124	$19,706[1]
Employment (in 000s)*	60.4	61.3
Unemployment rate – PEI (%)	13.8	14.4
Unemployment Rate – Canada (%)	*8.3*	*7.6*
CPI – Annual change PEI (%)	-0.5	1.2
CPI – Annual change (%) Canada	1.0	*1.7*
Retail trade ($ millions)	1,043.7	1,149.4
New motor vehicle sales (units)	4,556	4,802
Farm cash receipts ($ millions)	312.9	345.9
Potato receipts ($ millions)	172.2	194.8
Lobster landings ($ millions)	80.6	88.8
Housing starts (units)	524	616
Investment ($ millions)*	462.3	455.9
Manufacturing shipments ($ millions)	885.6	988.7
Tourist expenditures ($ millions)	288.6	302.6
International exports of goods ($ millions)	470.2	569.4
GDP at Market Prices ($ millions)	2,872.0	2,990.0[1]

* Revised Data

[1] Provincial Treasury estimate

Sources: Statistics Canada; CMHC;
PEI Fisheries and Tourism; PEI Business Development Inc.

Province of Prince Edward Island
Budget Address
2000

Presented by
The Honourable Patricia J. Mella
Provincial Treasurer
and
Chair of Treasury Board

100-03910/

Prince Edward Island

2000 Budget

A Balanced Agenda

Presented to
The Members of the Legislative Assembly of Prince Edward Island

by

Honourable Patricia J. Mella

Provincial Treasurer
and
Chair of Treasury Board

March 17, 2000

The full text of the Budget Address is available on the Internet at the Prince Edward Island Information Centre located at the following World Wide Web address:

http://www2.gov.pe.ca/budget/index.asp

Files containing the Budget Address, associated tables and supporting materials are also available for download in several popular word processor formats at the same address.

PRINCE EDWARD ISLAND
2000 BUDGET

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THE BUDGET ADDRESS

" I am pleased to report that over that time the Province has witnessed an unprecedented improvement in its economic and financial performance."

A Balanced Agenda

Mr. Speaker, Members of the Legislative Assembly.

This is the fourth budget that I have had the privilege of presenting to this Assembly and to the people of Prince Edward Island. I am pleased to report that over that time the Province has witnessed an unprecedented improvement in its economic and financial performance.

This Budget takes on special significance because it is the first of the new Millennium. It is also positive proof that our policies in the last years of the 20th century have placed the Island in a strong position as we begin the 21st century.

We are all aware that budgets are important indicators of the financial and economic health of the Province. As I stated a year ago, a budget is more than numbers, it is about building a secure future for individual Islanders. It is about providing a better standard of living; it is about optimism and opportunity; it is about fair rates of taxation and the effective delivery of public services. This Budget will further build on the successes of past budgets. We can look forward to the coming century on the basis of a strong and solid foundation and I am extremely proud of our accomplishments in this regard.

"We can look forward to the coming century on the basis of a strong and solid foundation and I am extremely proud of our accomplishments in this regard."

Public Input

An integral part of our Budget making process is to assess the needs of all Islanders. Helping us in this regard have been the many groups and individuals who have taken the opportunity to

provide their advice and opinions. In this context I am encouraged by the new found sense of self reliance that was evident in these discussions. Islanders are talking about growth, investment and the future. I have witnessed a profound interest in the development of our Island economy. I am taking this opportunity to personally thank the many people who have participated in developing this Budget, both internal to Government and those from the community at large who took the time to discuss their ideas and plans with me. As a result of these discussions, our Government sets forward a budget with a balanced approach to addressing the issues affecting Islanders.

"It is Islanders, working and investing, upgrading their education and skills, and managing their businesses, farms and enterprises that make all this happen."

Fiscal Performance

Mr. Speaker, I feel we have a great deal to be proud of.

Our fiscal and economic performance has been very sound. All Islanders should take credit for their part in this achievement. We in Government are only one part of the picture. It is Islanders, working and investing, upgrading their education and skills, and managing their businesses, farms and enterprises that make all this happen. Islanders also form the backbone of our important public service sectors, such as public servants, teachers and health care workers, and all contribute to the economy. Government can facilitate and encourage economic growth, but it cannot create it.

The Prince Edward Island economy performed well in 1999, exceeding our expectations in most areas. The latest information points to an expansion in our economy of at least 3 per cent. Inflation remained low in 1999 at 1.2 per cent, though rising energy costs in recent months have placed upward pressure on prices.

"The Prince Edward Island economy performed well in 1999, exceeding our expectations in most areas."

The growth in the economy was reflected in numerous economic indicators and I will not attempt to detail them all, but in many areas the results have been outstanding. For example, the value

of international exports from Prince Edward Island in 1999 was up from 1998 by 21.1 per cent. The value of exports of processed fish products climbed by 54.9 per cent. Residential housing starts were up by 17.6 per cent. Retail sales increased by 10.1 per cent.

Mr. Speaker, the increase in retailing on Prince Edward Island was the largest increase of any province in Canada. Our analysis of the data reinforces our belief that well placed tax reductions are a positive stimulus to the economy.

"Mr. Speaker, the increase in retailing on Prince Edward Island was the largest increase of any province in Canada."

The strong economic picture was reflected in significant employment gains. The latest Statistics Canada figures show employment reaching 64,800. Mr Speaker, this is by far the highest level of employment in the Island's history. The February 2000 unemployment rate was down to 11.5 per cent. This is the lowest since December 1988.

"... by far the highest level of employment in the Island's history."

Mr Speaker, the economic evidence shows that the engine that drives Prince Edward Island's economy is running smoothly.

The manufacturing sector is also doing very well. The value of manufacturing shipments from our shores reached close to $1 billion, expanded by 11.6 per cent over 1998.

Tourism performed well, maintaining the expansion in numbers that occurred in 1997 and 1998. Expenditures by tourists valued some $303 million last year, an increase of close to 5 per cent from 1998. Since 1996, tourism expenditures in this Province have grown by 77 per cent.

"Mr Speaker, the economic evidence shows that the engine that drives Prince Edward Island's economy is running smoothly."

The fishing sector had another good year with the value of lobster landings growing to $88.8 million.

Our farming sector struggled because of the early dry weather and low commodity prices. Although some world prices improved from previous years, they remained low, resulting in tight

margins. Overall, farm cash receipts expanded by some 10.5 per cent in 1999 over 1998.

There should be no doubt that the economic environment is critical to the Government's fiscal success. In turn, there can be no doubt that the management of the Government and its fiscal actions are working to foster the economic environment. I believe that the Government has set the appropriate direction to serve this end. That is not to say that our job is done. Overspending, heavy borrowing and over-regulation are not paths to economic success. Continuing prosperity hinges on Governments finding an appropriate balance between public services and taxation that fosters investment and employment. The nature of the new economic world in which we live in 2000 means that this balancing act is becoming increasingly complex.

"...there can be no doubt that the management of the Government and its fiscal actions are working to foster the economic environment."

Global Impacts

Mr Speaker, the direction the global economy is taking is obviously critical to our own economic forecasts. The global picture is dominated by the sustained expansion of the U.S. economy. The U.S. is experiencing one of the longest periods of economic expansion in its history, increasing by 3.5 per cent per year since 1992. Similarly, the Canadian GDP increased by 4.2 per cent in 1999.

"Continuing prosperity hinges on governments finding an appropriate balance between public services and taxation that fosters investment and employment."

We might pause at this time to reflect on these numbers because hindsight is 20/20. Toward the end of 1998 there were grave doubts about the prospect of further economic expansion in 1999 in view of the sudden collapse of the East Asian economies, together with financial problems in Russia and South America. The Japanese economy also looked very weak. The Canadian Federal Budget for 1999 was predicated on national economic growth of only 2.0 per cent. It is now evident that these doubts concerning the strength of the North American economies in 1999 were incorrect.

The U.S. Federal Reserve has raised interest rates three times in 1999 and again in February 2000, in order to cool down the economy. In the meantime, the US and Canadian stock markets reached record levels, which is indicative of the levels of optimism in the North American economies. The Canadian dollar had been somewhat stronger in 1999 than in 1998.

Growth Will Continue

"Growth Will Continue"

It is likely that the current expansion will continue but at a somewhat more reduced pace than was experienced in 1999. Inflation has been affected by oil prices, but with the consumer price index increasing at an underlying rate of 1.4 per cent it is still well within the target range set by the Bank of Canada. Interest rates are still very low by historical standards. We believe the present economic environment will continue to stimulate economic growth in Prince Edward Island in 2000.

"We believe the present economic environment will continue to stimulate economic growth in Prince Edward Island in 2000."

A full account of the Island economy can be found in Budget Paper A included in this document.

Island Revenues Improve

Mr. Speaker, strong economic growth translates into strong revenue performance, and in particular the Provinces's own source revenues have done well in 1999. The two major tax revenues are the Provincial Sales Tax and Personal Income Tax, together contributing to about 34 per cent of all provincial revenues. In both cases tax revenues in 1999/2000 are up from Budget. Overall, Provincial source revenues in 1999/2000 are above Budget by $45.5 million.

"... the Provinces's own source revenues have done well in 1999."

The strong economic performance nationally has also assisted in the growth of Equalization. The latest Equalization estimate is anticipated to be $244.4 million in the current fiscal year. I

might note that the 1998/99 Equalization payments were $268.5 million, of which $46.9 million was the result of major prior year adjustments which cannot be anticipated in the future.

Multi-Year Surpluses

For fiscal year 1999/ 2000 revenues totalled $893 million, while expenditures were $889 million. Therefore, I am very pleased to announce that the forecast for the 1999/2000 year will be a surplus of $4 million. This is the first time in 25 years that the Government of Prince Edward Island has achieved actual back-to-back surpluses. And, Mr. Speaker, today I am tabling another surplus Budget for 2000-2001.

"This is the first time in 25 years that the Government of Prince Edward Island has achieved actual back-to-back surpluses."

What do surpluses mean? Basically, they are an indication of the ability of the Government to live within its means. They also mean that the Provincial Debt is being reduced. This means that future Governments have increased flexibility to reduce taxes or respond to expenditure needs. The achievement of surpluses also sends a signal to the financial community that Prince Edward Island is a good place to invest, and more particularly it should over time raise our credit rating.

Cooperation

"Mr. Speaker the need for the Province to be more self reliant is growing."

Mr. Speaker, the need for the Province to be more self reliant is growing. Canada is changing rapidly, and it is evident that Canadian attitudes towards the smaller, less well off provinces are changing. We cannot take for granted that all Canadians will necessarily sympathize with the plight of the Atlantic Provinces in times of economic difficulty.

In order for Prince Edward Island to have a substantial voice on national issues we must forge new alliances with other provinces. It is therefore only natural for us to join with our neighbours in

the Atlantic Provinces on issues in which we share a common interest. But, Mr Speaker, Finance Ministers of the Atlantic Provinces have rarely worked together in the past. Fortunately that is now changing and I was most pleased to host a meeting of the Atlantic Provinces' Finance Ministers in January here in Charlottetown that set out a process for us to work more closely together in the future.

Mr. Speaker, it is evident that all Provinces are troubled by the Federal Government's lack of commitment to adequately provide for its share of the funding necessary for health, social services and post-secondary education. The Province has therefore joined with other provinces in calling for full restoration of the federal reductions to the Canada Health and Social Transfer (CHST).

"The Province has therefore joined with other provinces in calling for full restoration of the federal reductions to the Canada Health and Social Transfer (CHST)."

The Federal Government must provide adequate and sustained financial support to provinces to deal with the growing demands for health services.

The federal response to our calls to improve CHST and Equalization is of grave concern to myself and my colleagues in other provinces. The Federal Government has shown a consistent disregard for the concerns of Provinces in their struggle to provide health care to Canadians and a particular disinterest in the concerns of smaller Provinces in their struggle to provide provincial public services at reasonable tax rates. I will continue to forcefully bring our concerns to the Federal Government and to our fellow Canadians.

" I will continue to forcefully bring our concerns to the Federal Government and to our fellow Canadians."

Details on the CHST and Equalization transfers can be found in Budget Paper B.

The Year Ahead

Mr. Speaker, I would like to turn to the expenditure side of the Budget.

In 1996, this Government set clear priorities, and in making spending allocations since that time, we have been guided by those priorities. We have been able to enhance many existing services, provide new ones, and address important needs. This Budget builds on those successes.

We believe Government should be prepared to work with all Islanders in building a better future for our citizens and ensuring a solid financial future for our province.

Health Care

Mr. Speaker, today we spend approximately $857,000 a day in the provision of health and social services to Islanders. Over the last three and one-half years, our support for health care has increased 11.6 per cent. As a Government, we have worked hard to maintain the principles of Medicare and to enhance the level of services provided to Islanders.

"... we have worked hard to maintain the principles of Medicare"

We have implemented important new support programs for those with Multiple Sclerosis. We constructed the Island's first Cancer Treatment Centre, and we will soon break ground for a major new hospital in Prince County.

We built a new provincial Addictions Centre, and invested $3.6 million in enhanced regional addiction services, offering new programs for youth, women and those addicted to gambling.

We maintained existing hospitals, increased support for nursing and community care facilities, and increased staff.

"We maintained existing hospitals, increased support for nursing and community care facilities, and increased staff."

Last year we established the Health Care Stabilization Fund. That fund supported the creation of 85 new full and part-time nursing positions. Because of that fund, 81 casual nurses now have permanent employment and are retained in the Province. This year further funding of $3.3 million will support that initiative.

In February the Government announced a $4.2 million Enhanced Physician Recruitment Strategy, to recruit new doctors, support existing physicians and strengthen Prince Edward Island's position in the recruitment market place. In the same month, the Government announced the creation of four new physician positions at a cost of $800,000 annually. From 1997, this Government has added 12 new positions in the physician complement. During that same time, seven physicians have been successfully replaced, plus four long- term vacancies have been successfully filled.

The Health Research Fund, established in last year's budget, has resulted in partnerships with the Medical Research Council, University of Prince Edward Island, Canadian Health Research Fund, Canadian Cancer Society, Heart and Stroke Fund, the Lung Association and the Canadian Diabetes Association. Our support for these partnership initiatives is in excess of $300,000 and will leverage other dollars necessary for the completion of very valuable research which will benefit the health of Islanders.

"... Provincial Government subsidy rate for nursing homes will be increased by $445,000 this year, and a further $445,000 next year."

Mr. Speaker, many health care services are provided in partnership with others. I am pleased to announce that the Provincial Government subsidy rate for nursing homes will be increased by $445,000 this year, and a further $445,000 next year.

Nursing Home Residents Comfort Allowance will also be increased by $100,000 - the first increase since 1992.

"Community Care facilities will see program funding increased by $465,000 to support higher per diem rates."

Community Care facilities will see program funding increased by $465,000 to support higher per diem rates. This provides for a 29 per cent increase in the per diem rate.

Mr. Speaker, the Budget includes $250,000 to provide increased support to a number of community based, volunteer organizations that are partnering with Government in the provision of health services and education.

Funding of $250,000 has been allocated to support a new Provincial Children's Mental Health Team to address the increasing demands for mental health services.

There will also be more funding this year in support of services for speech therapy and autism.

"Today, I am announcing a further $1 million in funding to support social assistance clients."

As I stated, Government has an obligation to assist those in need. In December, we announced a doubling of the school allowance and a 10 per cent increase in the food allowance for those on social assistance. We also indicated at that time a review of other supports was ongoing.

Today, I am announcing a further $1 million in funding to support social assistance clients.

New technology is enhancing our ability to provide quality health care services and I am pleased to announce this budget funds three specific, multi-million dollar equipment initiatives that will further improve health care services.

"Our Government will purchase an MRI."

Our Government will purchase an MRI. This means that the 500-600 Islanders who are now referred off-Island each year for an MRI will be able to get it here. More importantly, it will assist in the detection and treatment of a variety of health problems.

"... a Linear Accelerator will be purchased."

The new Cancer Treatment Centre, built by this Government, is providing quality care to hundreds of Islanders. To further enhance the ability of the Centre to respond to treatment needs, a Linear Accelerator will be purchased. This means that 300 more Islanders will receive treatment here at home.

"... Government will commit $2.5 million to the equipment fund."

As I indicated, the new East Prince Health Facility will proceed and the community foundation will undertake a major equipment fundraising drive for the new facility. To assist in that effort, our Government will commit $2.5 million to the equipment fund.

Education

Mr. Speaker, as an educator, a parent, and an elected representative, I know the importance of a good education as the basis for development of our children.

Today, I am pleased to announce several new initiatives aimed at supporting education services in our Province.

" ... a province-wide, publicly funded kindergarten program will be implemented this year. "

Today I am announcing another historic first. Our Government believes that education should begin with the very young. Therefore, a province-wide, publicly-funded kindergarten program will be implemented this year. This program will be community based, and will work in partnership with those now providing kindergarten services. Our objective is to provide our youngest students with a positive head start, and ensure a standard level of program, while at the same time supporting those who have been providing such services. Funding of $1.5 million has been allocated in this Budget, with an objective of having the program operational by the Fall of 2000.

"The Capital Construction Program has so far supported the upgrading of 48 schools."

Mr. Speaker, we must also continue to upgrade those services we now provide. The new Athena School is fully operational and the new West Royalty School will open soon. The Capital Construction Program has so far supported the upgrading of 48 schools. Construction will begin on the new Fort Augustus School in the near future. Over the past three years, $25.8 million has been invested to improve our schools.

" ... today I am announcing that funding for elementary and secondary education will be increased by over $3 million."

Education is about more than buildings. That is why today I am announcing that funding for elementary and secondary education will be increased by over $3 million. We have met with the School Boards and the Teachers' Federation and are taking the first steps to address many of their suggestions.

This funding will be invested in 11 priority areas, including administrative grants, teacher assistants and support workers,

Internet technology, the Senior High Transitions Program, and in-service training for teachers. These funds will also support special-needs students, introduce a new math curriculum, French Language Schooling, and funds to keep our schools safe.

Mr. Speaker, our Government supports the vital post-secondary education facilities at Holland College and the University of Prince Edward Island. When we were elected we promised a three year funding commitment to the post-secondary institutions to assist them in planning for the future.

"UPEI will receive an additional $1.2 million in operating funds."

UPEI will receive an additional $1.2 million in operating funds. Holland College will receive $1.4 million to cover its operating deficit and a $1 million increase in its operating fund. These additional investments, along with our commitments to funding increases in the next two years to education and training, will benefit students by controlling the increasing costs of tuition.

"Holland College will receive $1.4 million to cover its operating deficit and a $1 million increase in it's operating fund."

In addition, the Minister of Education has already announced a new award program of $600 per student for those entering the third and fourth years at UPEI and second year of a two-year program at Holland College.

The Student Debt Reduction Program has also been enhanced to one of the very best in the country. We have provided $1.3 million to assist students through the Student Debt Reduction Program.

"We have provided $1.3 million to assist students through the Student Debt Reduction Program."

Communities

Mr. Speaker, I am conscious of the continuing need for improved physical infrastructure to support economic development throughout the Province.

In support of needed infrastructure, this Budget allocates $2.5 million for a new infrastructure program in partnership with the federal and municipal governments.

A solid infrastructure is vital for the delivery of goods and services. That is why last year, the Government took steps to improve our infrastructure by investing in many large capital projects, including $1.2 million for the construction of the Vernon River Bridge and completion of the last stretch of the $5 million Charlottetown Perimeter Highway.

"A solid infrastructure is vital for the delivery of goods and services."

Roads and road safety are priorities for this Government. In 1999, the Government completed numerous highway capital projects. Over 135 kilometres of roads were re-constructed and many improvements to roads and bridges were made.

These highway initiatives were complemented by environmental management projects that added to our sustainable environment. Numerous rehabilitations were completed, including MacInnis Pond, the Ross Dam and Mill River Estuary. Supporting all of these activities was the development of an Environmental Protection Plan that defines protection measures for roadway and bridge construction and maintenance.

"... we will invest $350,000 to enhance policing and security."

We all cherish our Island way of life and the safety and security of our communities. In response to community needs and new demands for services from increased tourism, we will invest $350,000 to enhance policing and security.

Three years of careful planning will culminate this May in the official launch of the province-wide 911 system which will provide Islanders and visitors access to emergency services through the internationally recognized 911 system.

"Three years of careful planning will culminate this May in the official launch of the province-wide 911 system..."

Mr. Speaker, our volunteer firefighters are a tremendous community resource. They are individuals who spend many hours training and stand ready to respond to emergency

situations. Not only are they volunteers, they often travel to emergencies in their own vehicles.

Our Government appreciates that effort, and I am pleased to announce that effective immediately the Province's 1,200 volunteer firefighters will receive motor vehicle registration for their primary vehicle free of charge.

"... that effective immediately the Province's 1,200 volunteer firefighters will receive motor vehicle registration for their primary vehicle free of charge.."

Monsieur le Président, notre gouvernement reconnaît la contribution importante des communautés acadienne et francophone à la société de l'Île-du-Prince-Édouard. Par conséquent, nous sommes heureux d'établir un programme global visant à améliorer les services en français offerts par notre gouvernement.

In 2000/2001 the Government will begin implementing the *French Language Services Act*, a process that was proclaimed earlier this month and will continue during the next five years. When fully proclaimed, the Acadian and Francophone community as well as visitors to the Island will be the beneficiaries of increased services in French. Proclamation will occur gradually over the next number of years respecting the capacity of Government as well as the desire of Acadian and Francophone community. Existing bilingual services will be maximized and increased bilingual resources will allow the Province to take full advantage of economic development opportunities.

"... nous sommes heureux d'établir un programme global visant à améliorer les services en français offerts par notre gouvernement."

Good employment prospects strengthen communities and over the past year the Community Development Bureau and the employment of Community Development Officers have actively fostered new opportunities across the Province.

Agriculture

Mr. Speaker, the Food Strategy is the cornerstone of our Government's development efforts in the primary industries.

Prince Edward Island is a major food producer, and we have the opportunity to introduce more products to the world marketplace. The Food Technology Centre will invest $2.7 million in 20 projects in support of economic growth and jobs in agriculture, seafood and food-related businesses.

"The Food Technology Centre will invest $2.7 million in 20 projects in support of economic growth and jobs in agriculture, seafood and food-related businesses."

In agriculture we will establish a new Sustainable Agriculture Industry Development Program that will encourage organic and low-input production and will see the implementation of a Pesticide Reduction Strategy.

This Budget includes provision for a new $1 million Seed Potato Crop Insurance Program to help seed growers reduce the financial risk of growing high quality seed under current conditions and increase the availability of high quality seed for future years.

The Department of Agriculture and Forestry is working closely with all sectors of the potato industry, including processors, and with the Federal Government through the Industry Seed Strategy Committee to address the current issues concerning the seed potato sector. Prince Edward Island is the only province in Canada to introduce a mandatory Post-Harvest Virus Test Program, and the only province with a cap on virus levels for seed.

"This Budget includes provision for a new $1 million Seed Potato Crop Insurance Program..."

The continued growth and development of Prince Edward Island's livestock industry is a priority for this Government. Along with other Maritime provincial governments, packers, the beef industry and Co-op Atlantic, the Department of Agriculture and Forestry has provided support for the introduction of a new Maritime Beef Brand to increase market access and returns to producers. Although the hog industry has gone through a difficult

period of low prices, there is a great deal of confidence in its future.

Funding of $1 million has been budgeted for continuation of the Agricultural and Environmental Resources Conservation Program which provides technical and financial assistance for on-farm projects which include soil conservation, manure management, hedgerow establishment and structures to store fuel and pesticides.

"Funding of $1 million has been budgeted for continuation of the Agricultural and Environmental Resources Conservation Program...."

Continuing with our commitment to sustainable forestry practices, I am pleased to announce that seedling production at the J. Frank Gaudet Tree Nursery will increase to three million seedlings this year.

Fisheries

Mr. Speaker, the lobster industry is by far the most important component of the Prince Edward Island fishery, and is a significant contributor to the provincial economy, especially in coastal and rural areas.

To support this vital sector, the Government will introduce a Lobster Strategy in year 2000 to focus upon maintaining and developing the lobster industry as a key element of our rural economy. The strategy will build upon the lobster research initiatives undertaken by the Department, with emphasis on building partnerships with the fishing industry, the Federal Government and research institutions. The lobster strategy will also focus on quality programs, product development and marketing.

"... the Government will introduce a Lobster Strategy in year 2000 to focus upon maintaining and developing the lobster industry as a key element of our rural economy."

The Department of Fisheries and Tourism has worked with representatives of the Prince Edward Island Shellfish Industry and the Federal Government to revitalize the Aquaculture Leasing Program. To strengthen the aquaculture industry, Government

will work with representatives of the Prince Edward Island Shellfish Industry and the Federal Government to improve funding for the Aquaculture Leasing Program. The new program will seek out industry input and guidance and will address the backlog in leasing applications.

Job Creation and Development

The global market offers new opportunities to Island community-based businesses.

Small business continues to be the engine of our economy and therefore, a primary focus of Prince Edward Island business development. The Province will continue to work with small businesses to help them in reaching their customers by using technology; to enter into new export markets; and to expand their business with appropriate infrastructure.

"Small business continues to be the engine of our economy..."

Job creation remains one of the key objectives of all business development initiatives undertaken. Recently, the Province assisted call centres to expand on Prince Edward Island which will create close to 350 new jobs for Islanders in this industry alone.

Aerospace is growing significantly, based on expanding international markets. Information technology has seen growth across the Province, taking advantage of the Province's broadband network and advanced technological infrastructure. Diversified manufacturing and life sciences are two sectors that continue to expand on Prince Edward Island and are recognized as areas of potential growth for our Province.

"Aerospace is growing significantly, based on expanding international markets."

Mr. Speaker, acceptance and use of the Internet has been rapid and E-Commerce is taking off at an explosive pace. Prince Edward Island has been very successful in putting infrastructure in place to support efforts in the knowledge based economy.

During the past year, the Province entered into a partnership arrangement with a consortium which included two Island companies and GE Capital, which is an internationally respected company, to foster an economic development initiative for the management of information technology networks. This initiative is expected to produce 73 jobs and provide more than $5 million in industrial benefits.

"Prince Edward Island has been very successful in putting infrastructure in place to support efforts in the knowledge based economy."

To strengthen Island communities, the Government will invest $140,000 to establish Community Access Program training facilities in communities across Prince Edward Island. Through the federally funded Electronic Post Office - Canada Post Project, our Government will work in partnership with the Federal Government to establish Canada Post's new electronic post office boxes across the Island, for Prince Edward Island residents.

"This initiative is expected to produce 73 jobs and provide more than $5 million in industrial benefits."

2000/2001 marks the second year of the Business Web Presence Program which assists Island companies to initially develop a web site using Island-based expertise. The Province and Industry Canada will invest $100,000 in 2000/2001 under this Program on a cost-shared basis. Through an investment of $120,000 in year two of the E-Commerce for Export Program, the Province and Industry Canada will cost share supports for Island businesses to develop their electronic commerce capabilities, thereby stimulating new export opportunities.

"... the Province and Industry Canada will cost share supports for Island businesses to develop their electronic commerce capabilities..."

The Government will support partners in their use of video conferencing to enhance teaching and learning. To assist educators of special needs students, we will offer support for the Western School Board's application to the Office of Learning Technologies to create Prince Edward Island's first ever on-line course for special education teachers. And to further help students, we will invest $95,000 to support the offering of a co-op initiative in the Bachelor of Computer Science degree program. This co-op initiative will provide students with "hands-on" experiences with the local businesses.

"... we will invest $95,000 to support the offering of a co-op initiative in the Bachelor of Computer Science degree program."

Cultivating our growing environmental industry sector is a priority for this Government. Through the Environmental Industries Initiative, $200,000 will be invested to create new support services to provide technical evaluation and assessment services to participants in environmental-related industries. To better protect the environment, the Fish and Wildlife Division will be strengthened by an investment of $125,000 to add additional Wildlife Technician positions on a permanent, full-time basis.

The Province continues to support the Island's primary industries and small businesses by providing lending services through the Prince Edward Island Lending Agency. In 1999-2000, there was in excess of 150 new loans provided to the primary and small business industries. In addition, loan assistance to major developments in Slemon Park, Souris, and West Royalty have provided tremendous employment opportunities for Islanders in the aerospace and manufacturing sectors.

"The Province continues to support the Island's primary industries and small businesses by providing lending services through the Prince Edward Island Lending Agency."

In the present economic climate, we believe there will be more opportunities in which the Lending Agency can and will play a key role toward the support of economic growth on Prince Edward Island.

The Province assisted more than 80 small businesses, totalling more than $1.5 million, by way of the Entrepreneurial Loan Program and has assisted with various major developments in Souris, Brudenell, West Royalty and Slemon Park.

"The Province assisted more than 80 small businesses, totalling more than $1.5 million, by way of the Entrepreneurial Loan Program."

Tourism

Following the successful Skins Game in 1998, the Province is proud to play host in August 2000 to Canada's first ever women's skins game, The Lori Kane Island Challenge. Attracting world class competitors and media coverage, this prestigious sporting

event will provide opportunities for the people of Prince Edward Island to showcase our world class golf product and hospitality.

Mr. Speaker, golfing products and services on the Island will continue to diversify and prosper. Crowbush Cove Development Inc. will conduct a $14.5 million development project consisting of a four-star resort in 2001, featuring 118 rooms and the most modern accommodation facilities, adjoining the Crowbush golf course.

"Mr. Speaker, golfing products and services on the Island will continue to diversify and prosper."

Plans are in place to complete the Confederation Trail, from tip to tip, by August of this year. Prince Edward Island will hold the distinction of being the first province in Canada to have a fully completed, multi-use recreational trail which will benefit rural tourism and serve as a magnet to attract the growing outdoor, soft-adventure tourism market.

"Prince Edward Island will hold the distinction of being the first province in Canada to have a fully completed, multi-use recreational trail"

Under the Island Welcome Centre Program, private and community operated Visitor Information Centres will increase their levels of service to the travelling public. In cooperation with the Tourism Industry Association of PEI and Tourism PEI, the centres will be identified by a common visitor information symbol, will adhere to new quality service standards and will distribute quality information to visitors to Prince Edward Island.

Developing our tourism services includes upgrading our tourism facilities. Due to its age and location, the Visitor Information Centre at Portage in West Prince is in need of vital repairs. To support our tourism industry in this region, and to create a welcoming environment, the Visitor Information Centre at Portage will be rebuilt to better serve the public.

Tax Relief and Tax Fairness

Mr. Speaker, I now turn to tax initiatives. In 1999, I was pleased to put into effect the Province's first ever reduction to our

"In 1999 I was pleased to put into effect the Province's first ever reduction to our Personal Income Tax rate. Today I am taking tax reduction even further."

Personal Income Tax rate. Today I am taking tax reduction even further. I am pleased to announce a significant program of income tax measures for 2000 and beyond that will deliver broad-based reductions for all taxpayers and targeted reductions for thousands of low income Island families.

As I said at the beginning of this address, the financial success of the Province is the result of the economic progress that Islanders have achieved through their own efforts. It is only right that Islanders share in this success.

I am pleased to announce three income tax measures. First, the Provincial Personal Income Tax rate will be reduced again, to 57.5 per cent. Second, the Government will pass through in full the additional provincial tax savings to Prince Edward Islanders that stem from federal income tax reductions in their 2000 Budget. And third, a Low Income Tax Reduction Program will be introduced that will significantly reduce tax paid by low income families and individuals.

"... a Low Income Tax Reduction Program will be introduced that will significantly reduce tax paid by low income families and individuals."

The one percentage point drop in the Provincial Personal Income Tax rate, from 58.5 per cent to 57.5 per cent will be fully effective from January 1, 2000. Each of Prince Edward Island's 66,300 tax payers will benefit from this measure. This measure is worth some $2.2 million annually.

The reductions in the provincial personal income tax that are the result of the latest federal Budget measures will flow through in full to all Island tax payers both in 2000 and 2001. The reduction in Personal Income Tax from this commitment is $5 million in 2000 and $7 million annually thereafter.

"... approximately 17,200 tax filers will see their taxes reduced. The program will eliminate provincial income tax entirely for some 4,860 Islanders..."

The Prince Edward Island Low Income Tax Reduction Program will also go into effect January 1, 2000. It will provide tax savings for low income families in a way that recognizes the extra costs faced by families with children. As a result of this program, approximately 17,200 tax filers will see their taxes reduced. The

program will eliminate provincial income tax entirely for some 4,860 Islanders, who represent 7 per cent of all Island tax payers. The annual reduction in personal tax revenue from this measure is estimated to be $3 million.

The Low Income Tax Reduction Program will be administered through our tax agreements with the Federal Government as a non-refundable credit against tax payable. It will provide a $250 credit for the tax filer, $250 for the spouse or equivalent-to-spouse and $200 per child. The credit will be available in full to all Island families with taxable income up to $15,000, reducing by 5 per cent on income over that amount. Examples of these reductions are shown in the Budget Paper C.

"It is particularly satisfying for me to be able to introduce this important equity measure in light of my joint responsibilities as Provincial Treasurer and Minister Responsible for the Status of Women."

It is particularly satisfying for me to be able to introduce this important equity measure in light of my joint responsibilities as Provincial Treasurer and Minister Responsible for the Status of Women. The social well-being of low income families is closely tied to their economic well-being and this program recognizes the need for income tax relief for working families with limited income, many of whom are headed by women. The Low Income Tax Reduction will provide relief to 42.7 per cent of all single parent families, totally eliminating tax payable for 11.2 per cent of such families.

This program is additional to measures previously announced to raise Social Assistance allowances to families.

Details on the Personal Income Tax measures can be found in Budget Paper C.

I am also announcing the Government's intention to join with other provinces in moving to the Tax on Income system in the calendar year 2001. Under this system the Federal Government will continue to administer the provincial income tax, allowing provinces to set their own tax rates and income schedules. It will allow our Province the flexibility of continuing with a tax policy

that raises the standards of living for Islanders while at the same time addressing our social needs.

In its move to a Tax on Income system, Prince Edward Island will adopt the federal income thresholds and rates that will be effective on January 1, 2001 and so ensure that the tax reductions for 2001 described in the Federal Budget are passed on in full to Island tax payers.

"In its move to a Tax on Income system, Prince Edward Island will ... ensure that the tax reductions for 2001 described in the Federal Budget are passed on in full to Island tax payers."

Islanders have accomplished broad-based economic successes in diverse areas including exports, construction, investment, retailing, tourism as well as our primary industries. This hard work of individuals has improved the revenue position of Government and I am pleased to be able to participate in further successes by putting money back in the hands of Islanders by way of significant tax cuts. The combined effect of the federal and provincial income tax cuts over the past two years adds up to a very sizeable annual saving of $41 million to Island taxpayers.

To provide tax relief to owners of farm land that is leased to bonafide farmers, or part-time farmers, our Government will introduce tax legislation to create a reduced, fixed tax for that farmland. The measure addresses current disparities in existing legislation that requires the full assessment be applied to non-farmers who rent out their lands for farming purposes.

"... our Government will introduce tax legislation to create a reduced, fixed tax for that farmland."

The issues surrounding our tax burdens are significant. We must continue to create a favourable taxation environment and remain competitive. A strong, healthy competitive economy is essential to our future health and standard of living. These tax measures, in time, will boost overall economic activity thereby resulting in other enhanced tax revenues.

Conclusion

I believe that this, the first Budget of the new Millennium, responds to the economic and social needs of the Province. It is based on the firm belief that fiscal responsibility is paramount to the future of the Province. It recognizes the need to deliver tax relief to Islanders, both from a sense of social responsibility as well as economic well being. The Budget continues to provide for the expansion of vital social services, particularly in the area of Health and Education. The Budget encourages future economic development by supporting high tech industries, primary producers and tourism, by fostering a competitive environment, and by ensuring that the infrastructure is adequate to serve Island industry.

"I believe that this, the first Budget of the new Millennium, responds to the economic and social needs of the Province"

Last year we stated that we would help to create the best Province in Canada in which to live. Mr Speaker, I am sure you would agree that at the start of the new Millennium, we in Prince Edward Island can be proud to claim that we not only live in the best country in the world, Canada, but also in the best Province in that country.

"... Prince Edward Island can be proud to claim that we not only live in the best country in the world, Canada, but also in the best Province in that country."

In closing, Mr Speaker, I want to thank my colleagues for their assistance and support in producing this Budget. I also want to thank the dedicated Government workers in the Provincial Government for their commitment to our goals. Finally, I would like to extend my sincere gratitude to all Islanders who have contributed to the revitalization of this great Province.

"I would like to extend my sincere gratitude to all Islanders who have contributed to the revitalization of this great Province."

BUDGET SCHEDULES

1. **Budget Summary**

2. **Gross Revenues**

3. **Gross Expenditures**

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8. **Summary Comparison - Provincial Tax Rates**

9. **Historical Financial Statistics, Prince Edward Island, 1997/98 to 2000/01**

Schedule 1
Budget Summary

	2000-01 Budget Estimate $	1999-00 Forecast $	1999-00 Budget Estimate $
REVENUES			
Current Revenue	853,857,600	853,787,700	794,690,500
Capital Revenue	451,000	9,520,200	1,437,400
Sinking Fund Earnings	21,550,000	23,050,000	23,050,000
Pension Plan Adjustment	7,000,000	7,000,000	9,000,000
Total Revenues	882,858,600	893,357,900	828,177,900
EXPENDITURES			
Current Program Expenditure	735,398,200	725,800,300	687,669,300
Interest Charges on Debt	108,470,000	102,875,800	100,620,000
East Prince Health Facility	9,000,000	2,345,000	1,427,000
Total Current Expenditures	852,868,200	831,021,100	789,716,300
CAPITAL	29,771,100	45,738,100	34,252,000
TOTAL EXPENDITURES	882,639,300	876,759,200	823,968,300
BUDGETARY SURPLUS BEFORE ALLOCATION OF FUNDS	219,300	16,598,700	4,209,600
ALLOCATION TO SPECIAL FUNDS			
Sustainable Resource Support Fund	-	1,000,000	-
Education Stabilization Fund	-	1,500,000	-
Health Care Stabilization Fund	-	6,500,000	-
Development Fund	-	3,500,000	-
Total Allocation to Special Funds	-	12,500,000	-
BUDGETARY SURPLUS AND CHANGE IN NET DEBT	219,300	4,098,700	4,209,600

Schedule 2
Gross Revenues

	2000-01 Budget Estimate $	1999-00 Forecast $	1999-00 Budget Estimate $
PROVINCIAL OWN SOURCE			
Taxes	430,473,600	429,986,900	393,506,700
Investments	12,593,300	9,830,000	9,830,000
Fees and Services	30,804,100	34,199,300	26,267,100
Licenses and Permits	14,098,700	15,225,300	13,939,900
Sales	25,537,900	25,062,500	25,251,100
Sub-Total	513,507,600	514,304,000	468,794,800
GOVERNMENT OF CANADA			
Equalization Entitlement	243,800,000	240,567,000	230,370,000
Equalization Adjustments	1,052,000	3,871,000	11,540,000
Canada Health and Social Transfer Entitlement	74,145,000	70,218,000	69,000,000
Canada Health and Social Transfer Adjustment	300,000	922,000	-
E.R.D.A.	4,895,000	7,354,200	3,600,100
Housing Programs	1,767,000	1,830,000	1,813,000
Young Offenders Services	2,172,600	1,997,900	1,793,200
Minority and Second Language	1,468,600	1,312,300	1,249,100
French Services Agreement	1,322,500	1,341,700	1,073,900
Other	9,427,300	10,069,600	5,456,400
Sub-Total	340,350,000	339,483,700	325,895,700
TOTAL CURRENT REVENUE	853,857,600	853,787,700	794,690,500
CAPITAL REVENUE	451,000	9,520,200	1,437,400
SINKING FUND EARNINGS	21,550,000	23,050,000	23,050,000
PENSION PLAN ADJUSTMENT	7,000,000	7,000,000	9,000,000
GROSS REVENUE	882,858,600	893,357,900	828,177,900

Schedule 3
Gross Expenditures

	2000-01 Budget Estimate $	1999-00 Forecast $	1999-00 Budget Estimate $
CURRENT			
Agriculture and Forestry	22,396,000	24,578,700	21,246,900
P.E.I. Grain Elevators Corporation	165,000	678,300	165,000
Community Services and Attorney General	33,503,900	32,684,500	31,554,700
Development	10,653,500	15,534,200	8,900,900
Prince Edward Island Business Development Inc.	19,330,300	22,588,200	18,945,200
Employment Development Agency	3,722,100	4,896,200	3,683,500
P.E.I. Energy Corporation	312,400	182,300	66,800
Education	188,504,800	182,560,400	177,079,000
Island Regulatory and Appeals Commission	1,065,100	1,041,200	1,041,200
Executive Council	2,359,000	2,270,900	2,360,900
Fisheries and Tourism	2,445,000	2,509,500	2,443,400
Tourism PEI	10,612,900	10,436,700	10,306,400
Health and Social Services	312,915,200	307,888,100	299,809,600
Legislative Assembly	3,106,300	2,787,300	2,740,800
Provincial Treasury	13,130,300	11,960,600	11,738,200
Council of Maritime Premiers	183,700	183,700	183,700
General Government	12,593,500	7,558,500	4,638,400
Interministerial Women's Secretariat	343,600	323,700	324,200
P.E.I. Lending Agency.	794,300	731,900	731,900
Technology and Environment	12,715,400	12,623,000	11,831,400
Technology Asset Management	1,258,500	-	-
Transportation and Public Works	66,298,800	65,672,900	62,195,900
Auditor General	1,203,600	1,140,700	1,179,100
P.E.I. Public Service Commission	5,382,800	5,264,000	4,797,400
Employee Benefits	10,402,200	9,704,800	9,704,800
PROGRAM EXPENDITURE	**735,398,200**	**725,800,300**	**687,669,300**
Interest Charges on Debt	108,470,000	102,875,800	100,620,000
East Prince Health Facility	9,000,000	2,345,000	1,427,000
TOTAL CURRENT EXPENDITURE	**852,868,200**	**831,021,100**	**789,716,300**
CAPITAL			
Capital Expenditure	29,771,100	45,738,100	34,252,000
GROSS EXPENDITURE	**882,639,300**	**876,759,200**	**823,968,300**

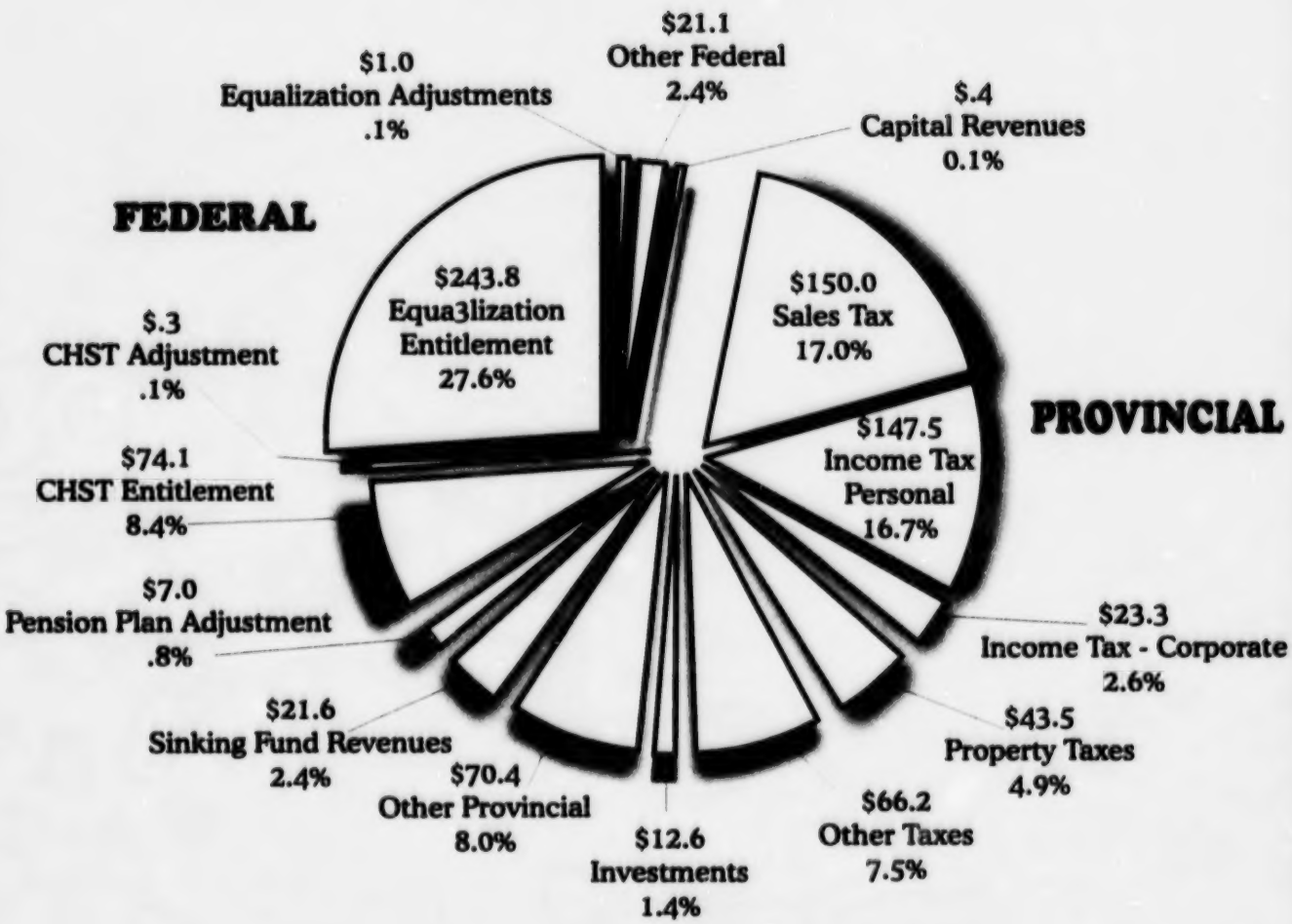
Schedule 4
Capital Revenue and Expenditure

	2000-01 Budget Estimate $	1999-00 Forecast $	1999-00 Budget Estimate $
REVENUE			
Land	321,000	2,286,100	297,000
Atlantic Freight Rate Assistance Agreement	-	2,349,100	1,010,400
Miscellaneous	130,000	4,885,000	130,000
Total Capital Revenue	**451,000**	**9,520,200**	**1,437,400**
EXPENDITURE			
Highways	26,103,500	32,100,000	26,103,500
Buildings	3,667,600	13,638,100	8,148,500
Total Capital Expenditure	**29,771,100**	**45,738,100**	**34,252,000**
NET CAPITAL EXPENDITURE	**29,320,100**	**36,217,900**	**32,814,600**

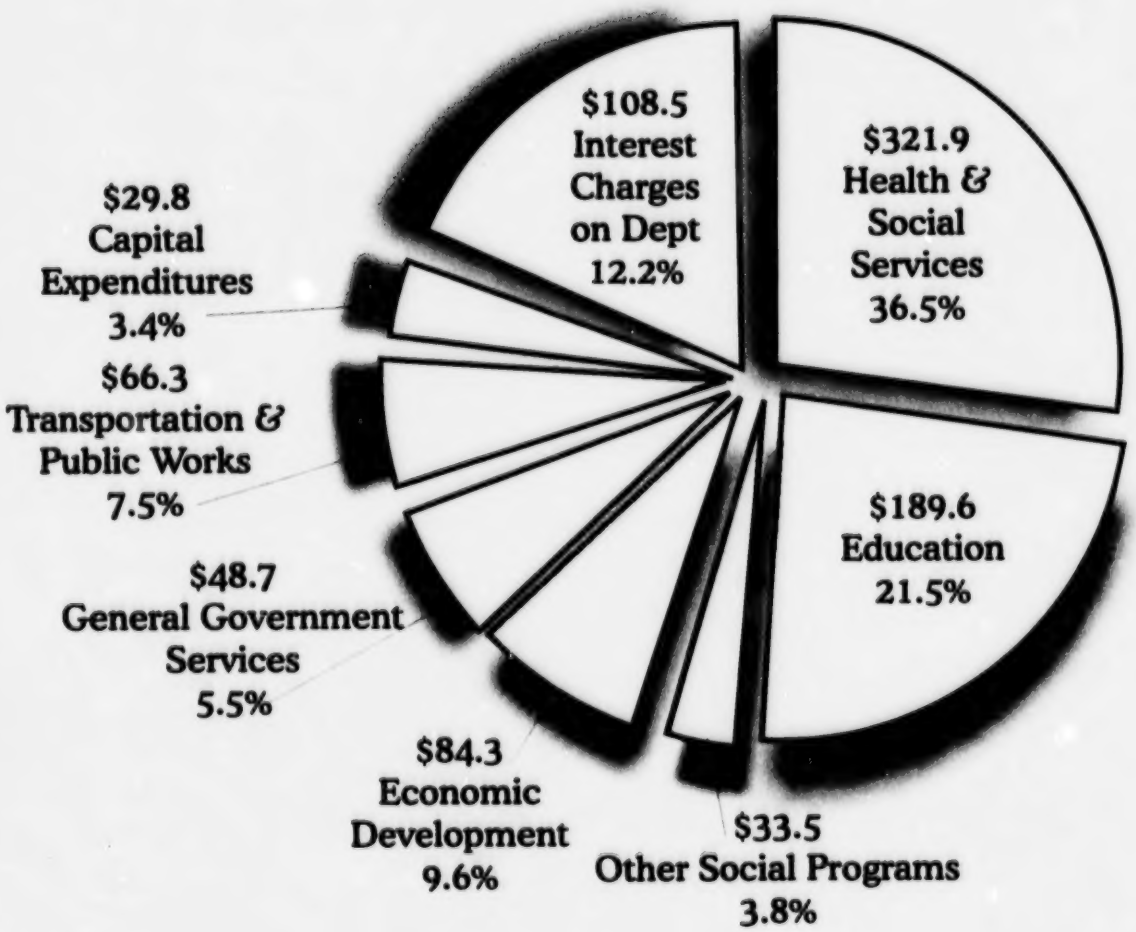
Schedule 5
Cash Requirements

	2000-01 Budget Estimate ('000 $)	1999-00 Forecast ('000 $)	1999-00 Budget Estimate ('000 $)
FINANCIAL REQUIREMENTS			
Budgetary Surplus	(200)	(4,100)	(4,200)
Sinking Fund Earnings	21,500	23,100	23,100
Sinking Fund Provisions	11,300	10,100	10,100
Non Cash Item - Pension Plan Adjustment	7,000	7,000	9,000
Loans to Crown Agencies - Net	37,700	22,900	10,900
Federal Loans	700	800	800
	78,000	59,800	49,700
DEBT TRANSACTIONS			
Debentures	-	80,000	50,000
Increase (Decrease) in Unfunded Debt	78,000	(20,200)	(300)
	78,000	59,800	49,700

Schedule 6
Where the Money Comes From
2000-2001



Schedule 7
Where the Money Goes
2000-2001



Schedule 8
Summary Comparison - Provincial Tax Rates[1]

	Effective Personal Income Tax[2]	Sales Tax	Fuel: Gasoline (¢/litre)	Fuel: Diesel (¢/litre)	Tobacco Tax ($/pk 25)	Corporate Tax: General[3]	Corporate Tax: Small
British Columbia	53.7%	7.0%	11.0	11.5	$2.75[5]	16.5%	5.5%
Alberta	46.4%	-	9.0	9.0	$1.75[5]	15.5%	6.0%
Saskatchewan	66.7%	6.0%	15.0	15.0	$2.15	17.0%	8.0%
Manitoba	61.7%	7.0%	11.5	10.9	$2.00	17.0%	7.0%
Ontario	45.3%	8.0%	14.7	14.3	$0.67	15.5%	8.0%
Quebec	n/a	7.5%	15.2[4]	16.2[4]	$1.08[5]	16.25%	8.9%
New Brunswick	60.3%	8.0%	10.7[4]	13.7[4]	$1.04	17.0%	6.0%
Nova Scotia	56.9%	8.0%	13.5[4]	15.4[4]	$1.48	16.0%	5.0%
Newfoundland	66.0%	8.0%	16.5[4]	16.5[4]	$2.75	14.0%	5.0%
Prince Edward Island	**57.7%**	**10.0%**	**13.0**	**13.5**	**$1.65[5]**	**16.0%**	**7.5%**
Atlantic Average	60.7%	8.5%	13.4	14.8	$1.73	15.8%	5.9%
National Average	57.4%	7.7%	13.0	13.6	$1.73	16.1%	6.7%

[1] Rates are as of March 6, 2000, unless otherwise indicated.

[2] Estimated 2000 net provincial income tax (gross tax plus surtax plus flat tax less tax reduction) as a percentage of Basic Federal Tax.

[3] Prince Edward Island, Newfoundland, Ontario, Saskatchewan and Alberta have special rates for manufacturers & processors.

[4] Provinces levying Value Added Taxes, namely Quebec, New Brunswick, Nova Scotia and Newfoundland, also apply sales tax on gas and diesel fuel purchases.

[5] Prince Edward Island, Quebec, Alberta and British Columbia do not levy provincial retail sales tax on top of the tobacco tax rate, as do other provinces.

Schedule 9

Historical Financial Statistics, Prince Edward Island 1997/98 to 2000/01

($ million)

	97/98	98/99	99/00	00/01
Operating Revenue	757.1	819.6	853.8	853.9
Capital Revenue	9.1	10.6	9.5	0.4
Sinking Fund Earnings	21.6	21.7	23.0	21.5
Pension Adjustment	9.3	6.0	7.0	7.0
Gross Revenues	797.1	857.9	893.3	882.8
Program Expenditure	651.0	691.7	728.1	744.4
Capital Expenditure	50.7	35.1	45.7	29.8
Interest Charges	102.3	101.3	102.9	108.4
Special Project Funds	-	23.5	12.5	-
Gross Expenditures	804.0	851.6	889.2	882.6
Budgetary Surplus (Deficit)	(6.9)	6.3	4.1	0.2
Net Debt	996.7	990.4	986.3	986.1

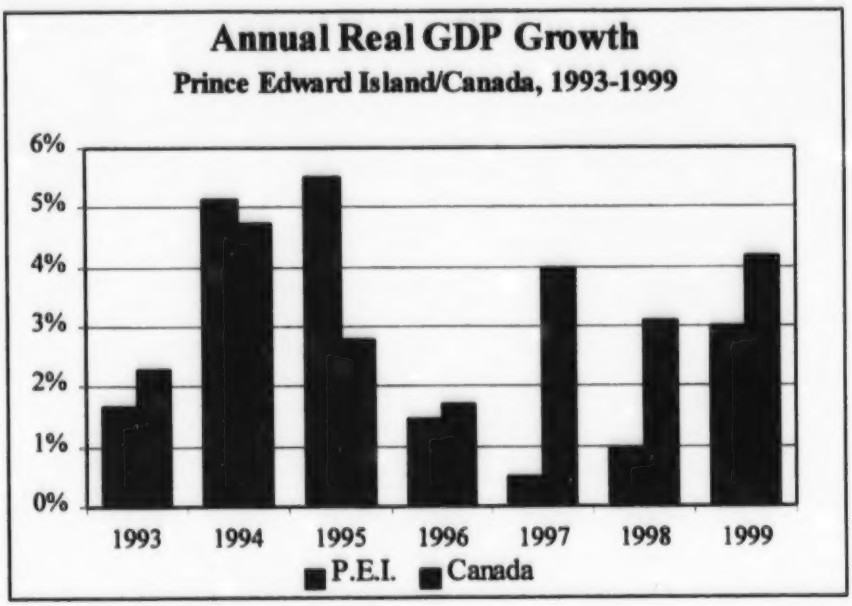
BUDGET PAPER A:

BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER A:
BACKGROUND NOTES ON THE ECONOMY

Highlights

- Latest statistics on the performance of the Prince Edward Island economy suggest growth in the order of 3 per cent in 1999, as measured by constant dollar Gross Domestic Product. This was significantly higher than the 1.8 per cent forecast last year and the 1.0 per cent real growth of 1998. The Canadian economy expanded 4.2 per cent in 1999, a continuation of the strong performance of the past three years. Prince Edward Island has completed over a decade of continuous economic growth, and Canada more than eight years of continuous expansion, outperforming many forecasters' expectations for growth and employment.



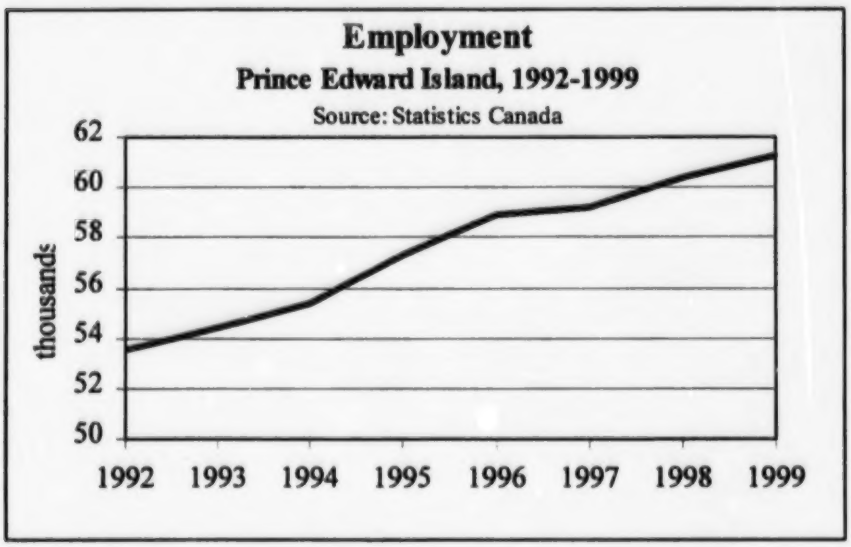
Source: Statistics Canada, PEI Treasury

- The retail sales and manufacturing sectors led the PEI economy in 1999. In fact, PEI had the highest growth of any province in retailing, with annual growth of 10.1 per cent, valuing some $1.15 billion last year. This compares with an increase for Canada of 5.8 per cent.

- PEI's manufacturing shipments increased by 11.6 percent in 1999, a very favourable showing compared to Canada's rate of 9.3 per cent.

- Total farm cash receipts on PEI were $346 million in 1999, up 10.5 per cent from the previous year, including a 13.2 per cent increase in potato receipts. The hog industry made a partial recovery from the low prices of 1998. The forestry sector expanded production by 51 per cent in 1999, in large part to supply the market for saw logs to produce lumber for the domestic and export market. The fishery sustained the value of its output in 1999.

- Prince Edward Island experienced substantial growth in employment during 1999, averaging 61,300, about 900 more people employed than in 1998. Unemployment was 14.4 per cent in 1999, though it rapidly declined at year end. PEI's February 2000 unemployment rate was 11.5 per cent, when 64,800 people were employed, 4,300 people more than February 1999.



- In 1999 personal income on Prince Edward Island increased by an estimated 3.8 per cent. Income per capita of Islanders is estimated at $19,706 in 1999, compared to $19,124 in 1998.

- Tourism had a solid year with estimated revenues increasing to $302.6 million for 1999 (comprised of purchases by pleasure and business visitors).

Detailed Review

National Economy

- The Canadian economy experienced a year of exceptional growth, with employment increasing and unemployment decreasing. The levels and trends in investment, output, trade, balance of payments, and government surpluses suggest a good deal of momentum in Canada's economy

- GDP increased by an estimated 4.2 per cent in 1999, fuelled by domestic and export demand. This compares well with the estimated 4.1 per cent growth of the US economy during 1999.

- The Canadian dollar gained strength in the latter months of 1999, recovering from a low of US$0.648 in December 1998 to trade in the range US$0.67 to US$0.69. Canada's balance of merchandise trade was $34 billion in 1999, an increase of 80 per cent over 1998, and the best year since 1995.

- Canada's inflation performance in 1999 was once again well within the Bank of Canada's target range of 1 per cent to 3 percent, with the Consumer Price Index (CPI) increasing 1.7 per cent for the year. Most forecasters indicate that the year 2000 will also be a period of subdued inflation, although rising energy costs, commodity prices, and pressures for higher wages and salaries for skilled and knowledge workers may filter through by the second half to push up the CPI.

- On the strength of higher employment, Canada's unemployment rate in 1999 was 7.6 per cent, falling to 6.8 per cent in early 2000, the lowest since April 1976.

- Manufacturing had a stellar year in Canada, with shipments increasing 9.3 per cent, easily outpacing the healthy growth in manufacturing in 1997 and 1998. Domestic demand was reinforced by foreign orders for Canadian products. Canada's exports in 1999 were up 11.9 per cent over 1998.

- Commodity prices strengthened in 1999, providing relief to Canada's resource industries. Petroleum prices firmed up substantially as the Organization of Petroleum Exporting Countries (OPEC) enforced production discipline. Canada's oil and gas sectors experienced an upturn in recent years, with increased activity in exploration and development, and with the coming-on-stream of energy infrastructure projects like the Sable Offshore Energy Project and the Maritimes and Northeast Pipeline.

- Interest rates crept up during 1999, with bond yields rising and central bankers adopting a tightening bias. Borrowing was strong in 1999 as the confidence of consumers and investors was high, feeding purchases of small and big-ticket items. Homebuyers and builders took advantage of 1999 mortgage rates to fuel that sector. Canadian 3 month T-bill rates averaged 4.69 per cent during 1999, compared to 4.72 in 1998.

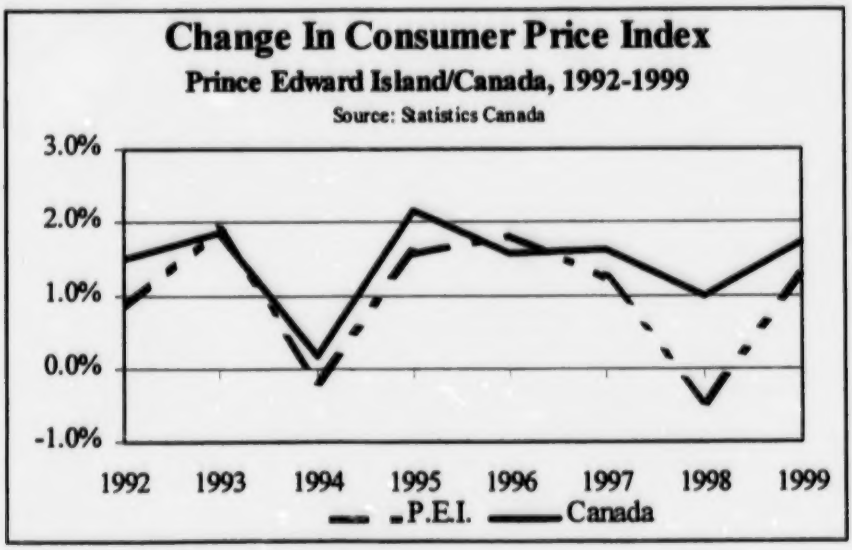
- Canada's economic outlook for 2000 and beyond is described by most analysts and commentators as good, with increasing employment, low inflation, strong exports, rising federal and provincial surpluses and favourable investment intentions. The Federal 2000 Budget is based on real GDP growth for Canada of 3.5 per cent during 2000. Rising interests rates may be a factor, dampening economic performance in the year 2000, with central bankers taking pre-emptive anti-inflationary measures. The unemployment rate is expected to average about 6.8 per cent during 2000, continuing to trend lower. Continuing consumer confidence and the move toward lower tax rates will also help the economy in 2000.

PEI Provincial Economy

- The Prince Edward Island economy expanded at a strong pace in 1999. It is estimated that real GDP growth was in the order of 3.0 per cent in 1999. This compares with the 1.8 per cent forecast estimate of a year ago, and the 1.0 per cent growth of 1998. Nominal GDP for 1999 is estimated to be $2.990 billion at current market prices.

- Newfoundland, with its rising oil sector, will likely have led the nation in terms of GDP growth at 5.5 per cent in 1999. Alberta is expected to have shown growth of about 3 per cent and Ontario about 5 per cent in 1999. Final figures are not available until later in the year.

- Following 1998, when the Consumer Price Index on PEI declined by 0.5 per cent, the CPI for PEI rose 1.2 per cent in 1999. For 2000, it is expected to rise slightly, to about 1.6 per cent on average for the year.



- Prince Edward Island's population increased from 137,028 on July 1, 1998 to 137,980 on July 1, 1999, a 0.7 per cent increase.

- The employed work force in 1999 averaged 61,300 people, an increase of about 900 people during the year. Employment, at 64,800 in February of 2000, was the highest ever recorded. The PEI unemployment rate averaged 14.4 per cent in 1999, little changed from the year before, and with an increased participation rate. Employment growth was centered in the trade, health care, manufacturing, and tourism industries. Indications are that there will be further gains in employment during 2000, with the unemployment rate falling from the 1999 level. PEI's February 2000 unemployment rate of 11.5 per cent is the lowest since December 1988.

- Per capita income growth of Prince Edward Islanders has been muted in recent years, in part because of reductions in Employment Insurance (EI) benefits. EI benefits totalled $163 million in 1999, compared to $170 million in 1998, about 4.4 per cent fewer dollars coming through the system for PEI workers in 1999 compared to 1998. This arises from changes to the employment insurance program, coupled with increasing job opportunities on PEI.

- Prince Edward Island experienced rapid growth of international exports in 1999, totalling $569.4 million, up from 1998 by 21.1 per cent. Exports were led by food products at $435.2 million, machinery and equipment at $51.7 million, and forestry products at $21.8 million. Increases occurred in all categories.

Sector Detail

Manufacturing

- Manufacturing shipments on PEI were valued at $989 million in 1999, up 11.6 per cent from 1998. About 12 per cent of GDP is now in this industry category. Food industries account for $562 million of all shipments, or 57 per cent of the total, followed by transportation equipment at $205 million or 21 per cent. The latter category has been growing with the advent of the aerospace industry near Summerside. Chemicals and other machinery and metals products are also significant contributors. Growth in manufacturing is expected to continue through 2000, with continuing strong demand for processed foods, and aerospace products.

Agriculture

- PEI's farm cash receipts were up 10.5 per cent overall in 1999 compared to 1998, although primary agriculture production decreased slightly in terms of real GDP.
- While the volume of potato production was down nearly 1.9 per cent from 1998, the value of the potato crop increased by 13 per cent from the previous year to $195 million.
- The hog industry had another year of less than favourable prices following two very low price years, and hog production decreased by 2.3 per cent; however, its value rose, with hog slaughter up from 195,900 in 1998 to 204,500 in 1999. Farm cash receipts for hogs are down by 30 per cent from their peak in 1997.

Table 1. Farm Cash Receipts PEI $ millions Source: Statistics Canada

	Potatoes	Beef	Hogs	Dairy	Other	Total
1993	96.8	33.2	21.6	38.9	47.3	237.8
1994	163.7	27.3	22.3	41.0	53.2	307.5
1995	149.7	28.6	24.8	43.3	65.1	311.6
1996	137.5	27.6	30.6	45.8	47.6	289.1
1997	128.8	29.8	29.2	47.1	39.2	274.1
1998	172.2	28.7	20.6	49.5	42.0	312.9
1999	**194.8**	**23.0**	**21.6**	**49.0**	**57.5**	**345.9**

- Cattle and calf production was reduced in 1999, but prices were firmer during the year. The supply managed sectors, led by dairy farming, were stable in output and value.

- Farm production increased significantly in a host of other crops including blueberry production and vegetable crops.

- Farm support payments in PEI were up 67.9 per cent from the previous year, totalling $18.7 million in 1999, including assistance from the AIDA program.

Fishing

- The lobster fishery had landings of 18.5 million pounds in 1999, down from 18.9 million pounds in 1998, but the value of the 1999 lobster catch was up at $88.8 million, compared to $80.6 million the previous year.
- Catches of other fish species were down in some categories but significantly up in others. The overall value of the fishing sector in 1999 is estimated to be about the same as the previous year.
- Aquaculture is expanding with increasing investment in research and development for shellfish culture, including mussels, and for salmonids and char raising.

Forestry

- Forestry increased rapidly in the past year, with 1999 round wood harvest up about 50 percent compared to 1998. This is partly the result of dramatic increases in demand for lumber for construction, especially for house building in the US. Wood industries shipments from PEI were close to $49 million in 1999, up 49 per cent from 1998.

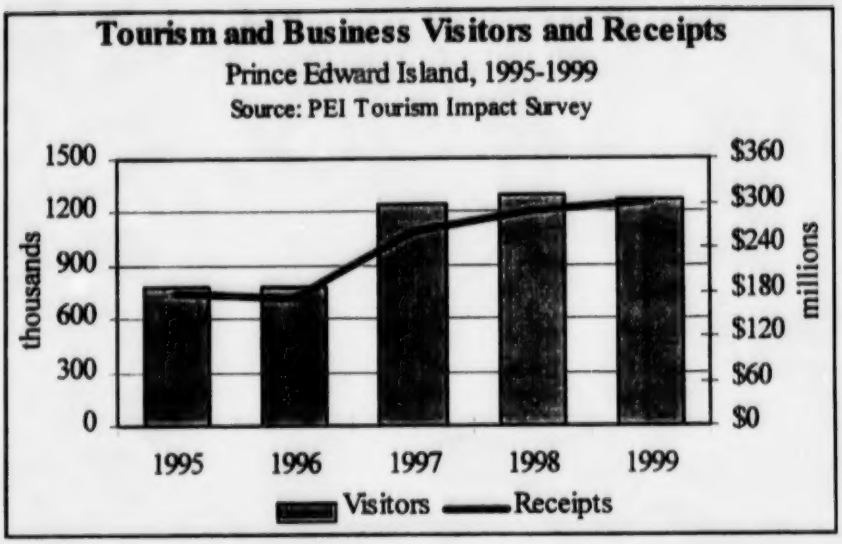
Construction

- Housing starts, at 616 units, were up significantly from 1998. At $143 million, the value of building permits increased 23 per cent, split evenly between residential and non-residential building for 1999.

- The Statistics Canada survey of public and private investment intentions for 2000 suggests that construction activity will increase modestly this year, and could be valued at about $304 million.

Tourism

- Following the opening of the Confederation Bridge in 1997, the tourism industry has experienced a 50 per cent increase in tourism activity. It also benefited from the general economic upturn in the Canadian and US economies. While tourist visits levelled off in 1999, the number of parties continued to increase, and total revenue from tourism and business travellers increased. In 1999, this was $302.6 million, up 4.9 per cent from 1998.



Services Sector

- $1.15 billion of goods were sold at the retail level in 1999, up 10.1 per cent from 1998. Retailing is a major employer, with 9,600 workers in 1999.

- New automobile sales were up 9.1 per cent, at $56.4 million, and commercial vehicles sales were up over 11.4 per cent, at a value of $66.8 million.

- In addition to higher consumer confidence and the buoyant economy, another important factor helping retailing is the PEI Government's decision to eliminate the provincial sales tax on footwear and clothing. This measure is now extended to December 31, 2001.

- The service-producing sector in PEI accounts for 73 per cent of total employment or 44,500 in 1999, up 2.3 per cent from 1998. Following the trade (including retailing) category, with nearly ten thousand people (22 per cent of service employment), are: the Health Care and Social Services category employing 7,200 in 1999 (16 per cent of service employment), public administration 6,100 (14 per cent), and education 4,100 (9 per cent). 1999 was the first year since 1996 that employment in public administration increased.

Summary

- During 1999, Prince Edward Island had solid economic growth, led by manufacturing and retailing. Exports continue to be important for growth, and tourism and the fishery had a solid year. Employment increased sharply at the end of the year, and unemployment declined.

- The PEI economy continues to diversify with expansion into information technologies and biotechnology. The possibility of a natural gas lateral to PEI from the Maritimes and Northeast Pipeline provides the prospect for new economic activity. The success of the primary sectors, tourism, and the export of food products will continue to be the backbone of the Island economy.

- The development of golf as a tourism attraction will be furthered with the Lorie Kane Island Challenge this year, as well as the opening of new courses.

- Planned retail, industrial, and business expansion, and the development of tourism attractions such as the Founders' Hall Canadian heritage exhibit on the Charlottetown waterfront , will support further growth.

- Prince Edward Island's economy is forecast to expand in the range of 1.5 to 2.0 per cent in 2000.

SUMMARY STATISTICS

PRINCE EDWARD ISLAND ECONOMY

	1993	1994	1995	1996	1997	1998	1999
Population on 1 July (in '000s) *	132.3	133.7	134.8	136.2	136.9	137.0	138.0
Personal income per capita ($) *	18,152	17,866	18,481	18,603	18,606	19,124	19,706[1]
As % of Canadian personal income	*82.9*	*80.9*	*81.4*	*81.0*	*79.0*	*78.7*	*78.9*[1]
Employment (in '000s) *	54.4	55.4	57.3	58.9	59.2	60.4	61.3
Unemployment rate - P.E.I. (%) *	17.6	17.2	15.0	14.7	15.4	13.8	14.4
Unemployment Rate - Canada (%)	*11.4*	*10.4*	*9.4*	*9.6*	*9.1*	*8.3*	*7.6*
CPI - annual change - P.E.I. (%)	1.9	-0.2	1.6	1.8	1.2	-0.5	1.2
CPI - annual change - Canada (%)	*1.9*	*0.2*	*2.2*	*1.6*	*1.6*	*1.0*	*1.7*
Retail trade ($ millions) *	839.8	857.0	894.0	931.6	1,002.8	1,043.7	1,149.4
New motor vehicle sales (units)	4,449	4,764	4,223	4,120	4,717	4,556	4,802
Farm cash receipts ($ millions) *	237.8	307.5	311.6	289.1	274.1	312.9	345.9
Potato receipts ($millions) *	96.8	163.7	149.7	137.5	128.8	172.2	194.8
Lobster landings ($ millions)	50.7	64.2	78.4	61.7	73.2	80.6	88.8
Lobster landings (lbs - millions)	*19.4*	*18.6*	*19.3*	*18.0*	*17.8*	*18.9*	*18.4*
Housing starts (units)	645	669	422	554	470	524	616
Investment ($ millions) *	497.8	547.3	557.9	463.6	444.5	462.3	455.9
Manufact. shipments ($ millions) *	510.8	540.0	704.2	694.1	809.6	885.6	988.7
Tourist expenditures ($ millions)[2]	110.0	127.8	141.4	150.8	245.9	274.4	283.5
International exports ($ millions)	208.8	289.9	326.2	353.1	434.7	470.2	569.4
GDP at market prices ($ millions) *	2,460	2,515	2,663	2,770	2,833	2,872	2,990[1]

* revised data

Note 1: Provincial Treasury estimate

Note 2: Expenditures do not include business travel

Sources: Statistics Canada, CMHC, Provincial Department of Fisheries and Tourism, Enterprise P.E.I.

BUDGET PAPER B:

FEDERAL FISCAL ISSUES

BUDGET PAPER B:
FEDERAL FISCAL ISSUES

The 2000 Federal Budget did little to address the immediate crisis in Health Care or to halt the equity divide that is growing between Canada's provinces, preferring to concentrate on reducing taxes, largely to the benefit of middle to high income earners.

> *"The Federal Government has shown a consistent disregard for the concerns of Provinces in their struggle to provide health care to Canadians and a particular disinterest in the concerns of smaller Provinces in their struggle to provide provincial public services at reasonable tax rates."*
>
> ***- Hon. Patricia J. Mella, March 17, 2000***

CANADA HEALTH AND SOCIAL TRANSFER

Federal Contributions to Provincial Social Programs

The Canada Health and Social Transfer (CHST) is the federal program that provides financial support for health, post-secondary education and social service spending in Canada's provinces and territories. The CHST was first announced in Finance Minister Martin's second budget in 1995 as a replacement for two long-standing federal programs - the Canada Assistance Plan (CAP) and Established Programs Financing (EPF).

In 1994-95, the combined cash transferred to provinces and territories through CAP and EPF was $18.7 billion. In 1996-97, the new CHST delivered $14.7 billion, falling to $12.5 billion in 1997-98. The annual transfer was raised to $14.5 billion in the 1999 Federal Budget, still well below the levels prior to 1995-96.

Canadians have consistently identified health care as their top priority for government spending and provinces have been forced to meet growing demand and cost pressures with a drastically reduced federal contribution.

The 2000 Federal Budget allocated $2.5 billion to a CHST trust fund from the surplus funds of 1999-00. Each province is expected to draw down its portion of the fund over four years "in a manner that best serves their needs". The allocation of funds between provinces is based on a per capita allotment.

Table B.1 identifies federal spending on core CHST, the federal contributions to CHST trust funds and the suggested way for provinces to use the trust funds to smooth CHST revenues from

1994-95 to 2003-04. As compared to 1994-95 transfers of $18.7 billion, an on-going cash short-fall of at least $3.2 billion remains even after the announcements in the 2000 Federal Budget.

Table B.1 - Federal CHST Spending: 1994-95 to 2003-04

	CHST Cash Entitlements	End-of Year Payments to CHST Trusts	Federal CHST Spending	Federally Suggested CHST Cash Stream
		(billions of dollars)		
1994-95	18.7	-	18.7	18.7
1995-96	18.5	-	18.5	18.5
1996-97	14.7	-	14.7	14.7
1997-98	12.5	-	12.5	12.5
1998-99	12.5	3.5	16.0	14.5
1999-00	12.5	2.5	15.0	14.5
2000-01	13.5	-	13.5	15.5
2001-02	14.5	-	14.5	15.5
2002-03	15.0	-	15.0	15.5
2003-04	15.0	-	15.0	15.5

Source: Federal Budget 2000, Federal Public Accounts

The table also shows that federal spending on CHST is actually in a state of decline in 1999-00 and 2000-01, despite increasing federal revenues and balanced budgets. Including the new CHST Trust announced in its 2000 budget, actual federal CHST spending falls from $16 billion in 1998-99 to $15 billion in 1999-00 to $13.5 billion in 2000-01.

The CHST Cash Entitlement is the base amount that the Federal Government transfers to Provinces and Territories in any given year. It might be noted that CHST Cash Entitlements differ from Total Entitlements, which include the value of a percentage of provincial income taxes. In 1976-77, the Federal Government transferred income tax room, in the form of percentage points, to the provinces as part of its commitment to provincial social programs. Specifically, the Federal Government agreed to decrease their tax rates on personal and corporate income by agreed amounts so that Provinces could increase their rates but leave the tax payer unaffected.

Provincial CHST Entitlements are determined by a relatively uncomplicated formula which multiplies the national total of CHST Entitlements by each province and territory's share of national population to determine provincial-territorial Entitlements. The CHST formula then subtracts the value of each province's transferred income tax points, whose value grows every year, from the initial calculation of Entitlements. The difference is paid to provincial governments as cash.

The Federal Government considers the tax transfers to be an on-going and increasing federal contribution to provincial revenues and social programs, despite the fact that these taxes have been part of provincial own-source revenues for over twenty years. The tax transfers do not appear in the federal Public Accounts as either a revenue or an expenditure item.

Provinces have called on the Federal Government to restore CHST cash funding to at least its 1994-95 level of $18.7 billion, disregarding federal claims that the growth in tax points has restored CHST funding to previous levels. Provinces also wish to see the federal cash contribution to health care grow into the future to reflect population growth and cost pressures.

Prince Edward Island CHST Revenues

The Canada Health and Social Transfer is Prince Edward Island's second largest federal revenue after Equalization. Revenue from this transfer in 2000-01 is $74.4 million. This amount is $16.5 million ***less*** than the 1994-95 transfer amount of $90.9 million. By contrast, Prince Edward Island's spending on Health and Social Services is budgeted at $312.9 million in 2000-01, and $44.1 million is allocated to Post-secondary Education - which are respectively $30.4 million and $10.6 million ***more*** than the Province spent in these areas in 1994-95. Thus CHST today contributes only 21 per cent to provincial social spending as compared to 29 per cent in 1994-95.

The following table shows Prince Edward Island's CHST cash entitlements and CHST recorded revenues since 1994-95. CHST Entitlements for any given year are initially based on forecasts by the Federal Department of Finance, but are subject to adjustments when actual data becomes available as to provincial-territorial populations and personal and corporate income tax collections across the country. Prince Edward Island records any adjustments to cash payments in the fiscal year in which the correction is made.

The figures from 1994-95 relate to the sum of payments under Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) which were replaced by the CHST beginning in 1996-97.

Table B.2 - CHST Entitlements and Revenues, Prince Edward Island

	CHST Cash Entitlement	CHST Revenues	Revenue Change from 1994-95
	(Millions of dollars)		
1994-95	89.0	90.9	-
1995-96	88.3	88.8	(2.1)
1996-97	71.4	77.7	(13.2)
1997-98	61.3	63.5	(27.4)
1998-99	61.3	63.1	(27.8)
1999-00	70.2	71.4	(19.5)
2000-01	74.1	74.4	(16.5)
2001-02	74.0	74.0	(16.9)
2002-03	74.0	74.0	(16.9)
2003-04	74.0	74.0	(16.9)

Source: Federal Budget 2000, Prince Edward Island Public Accounts, Provincial Treasury Estimates

After 2000-01, the Province's CHST revenues are forecast to be $16.9 million less than the cash provided in 1994-95.

EQUALIZATION

Federal Contributions to Provincial Equity

Equalization is the largest single revenue source for the Government of Prince Edward Island. It is the federal program which is intended to put provinces on a reasonably equal footing in terms of their ability to provide services to their residents without imposing onerous rates of taxation. It is enshrined in Canada's Constitution under section 36.2 with the following commitment:

> *"Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."*
>
> ***- Canada Act, 1982 (U.K.)***

The Federal Government makes Equalization payments to provinces based on a detailed formula that assesses each province's ability to raise revenues so that Equalization-receiving provinces will be able to have adequate revenues relative to a per capita standard.

The standard adopted by the Federal Government currently embodies the fiscal resources of the five "Standard" provinces of British Columbia, Saskatchewan, Manitoba, Ontario and Quebec. It might be noted that this does not provide for full equality because even after Equalization, the government of Prince Edward Island's revenues are only 92.6 per cent of the national average on a per capita basis. Ontario has revenue capacity of 100.3 per cent, while Alberta has 135.9 per cent of the revenue capacity of other provinces. Moving to a true National Average Standard from the current Five-Province Standard would raise national Equalization Entitlements by approximately $1 billion annually.

In recent years, provinces have dramatically increased the level of public services they provide, both in historical terms and as compared to the Federal Government. This increase in program spending, in view of federal restrictions to CHST payments, has necessitated increased reliance on own-source provincial revenues. National Equalization payments have risen in consequence, but the restricted revenue standard of the current program has meant that the relative disadvantage of less affluent provinces has become intensified.

In addition to this systematic restriction on federal payments of using a reduced standard, the Equalization program is subject to a further explicit cap on payments that imposes a ceiling of $10 billion in 1999-00, increasing with annual GDP after that year.

It should be noted that all Canadians in similar circumstances pay the same level of federal tax, no matter where they live. It is a misnomer to believe that Equalization necessarily penalizes citizens in non-Equalization receiving provinces, such as Ontario and Alberta. For example, a single individual in Alberta earning $35,000 pays the same amount of federal income tax, Goods and Services Tax and fuel excise tax as a similar individual earning $35,000 in Prince Edward Island.

The Government of Prince Edward Island is concerned that the Federal Government is too narrowly focused on restricting payments under the Equalization program and not sufficiently committed to its Constitutional obligation to ensuring that all Canadians receive reasonably comparable levels of public services at reasonably comparable levels of taxation.

The 2000 Federal Budget noted the following record of national Equalization Entitlements over a ten year period.

Table B.3 - Federal Equalization Entitlements

	Equalization ($billions)
1994-95	8.6
1995-96	8.8
1996-97	9.0
1997-98	9.7
1998-99	9.6
1999-00	9.8
2000-01	9.5
2001-02	10.0
2002-03	10.3
2003-04	10.7

Source: Federal Budget 2000

This presentation is in sharp contrast to the 1999 federal budget in which Minister Martin made a point of stating in his speech that,

> *"the latest data indicate that payments this year (1998-99) will now total $10.7 billion, $2.2 billion more than projected in the 1998 budget.*
>
> *And next year, Equalization payments will be $600 million higher than projected"*
>
> ***- Hon. Paul Martin, February 16, 1999***

Prince Edward Island Equalization Revenues

In 1999-00 Equalization revenues are forecast to be $244.4 million, up slightly from the 1999 Provincial Budget estimate of $241.9 million. Moving forward, Equalization revenues in 2000-01 are expected to remain relatively stable at $244.9 million.

As shown in Table B.4, Equalization revenues in 1999-00 are forecast to be $24.1 million lower than in 1998-99, which stems from the fact that Prince Edward Island received an unprecedented prior year adjustment in that year of $46.9 million when federal estimates for 1996-97 and 1997-98 were revised upwards.

This table highlights the variance that can take place in provincial Entitlements as more accurate information replaces preliminary estimates in the Equalization formula for a given Entitlement year. For example, the first federal estimate of payments to Prince Edward Island pertaining to the 1997-98 Entitlement year was $185.1 million, made in February 1997. Accurate information on provincial income tax collections became available in December 1998, which helped to raise the official estimate to $233.1 million in February, 1999. Further information on the 1997-98 fiscal year has become available from Statistics Canada and other provinces since then and the most recent estimate, of February 2000, stands at $236.3 million. Thus the initial federal estimate for 1997-98 was $51.2 million below the most recent federal figure for that year.

Table B.4 - Equalization Entitlements and Revenues: Prince Edward Island

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
	(millions of dollars)						
Equalization Entitlements							
First Federal Estimate	185.9	202.0	196.4	185.1	198.6	222.0	236.1
Most Recent Federal Estimate	192.0	192.2	208.3	236.3	231.6	240.6	236.1
Equalization Revenues	200.7	187.9	187.2	208.3	268.5	244.4	244.9

Source: Prince Edward Island Public Accounts, Federal Department of Finance Official Estimates and 2000 Prince Edward Island Budget

Actual Entitlements, rather than revenues, have actually been relatively stable since 1997-98 in the order of $236 million to $240 million. The Provincial Treasury revenue estimate of $244.9 million for 2000-01 is based on continued stability with some upward adjustments to reflect anticipated provincial revenue growth into the new year.

BUDGET PAPER C:

PERSONAL INCOME TAXES

BUDGET PAPER C:
PERSONAL INCOME TAXES

This section presents detail on the changes to Provincial Personal Income Taxes which become effective during fiscal year 2000-01.

I. PRINCE EDWARD ISLAND TAX REDUCTIONS

> *"In 1999 I was pleased to put into effect the Province's first ever reduction to our Personal Income Tax rate. Today I am taking tax reduction even further. I am pleased to announce a significant program of income tax measures for 2000 and beyond that will deliver broad-based reductions for all taxpayers and targeted reductions for thousands of low income Island families."*
>
> ***- Hon. Patricia J. Mella, March 17, 2000.***

Three complementary provincial income tax reduction measures take effect in the 2000 Taxation Year which will reduce income tax paid by Prince Edward Islanders by a total of $10 million in 2000 and $12.2 million in 2001, when all measures will be in full effect. This represents 7 per cent of total provincial income tax collections. In conjunction with the tax reductions introduced in the 2000 Federal Budget, new measures introduced this year will result in a tax cut for Islanders of $24 million in 2001.

These tax reduction measures will be incorporated in full into a new Tax on Income system in 2001.

The combined Prince Edward Island tax reductions in the 1999 and 2000 provincial budgets total $19.0 million, which amounts to a provincial income tax cut of 12 per cent. When added to federal reductions from both years, annual Personal Income Tax savings for Prince Edward Islanders are $41.1 million, as detailed in Table C.1.

Table C.1 - Full-year Savings for Prince Edward Island Taxpayers: 1999 and 2000 Budget Announcements

	1999 Budget	2000 Budget [1]	Total
A. Provincial Tax Rate Decrease	$2.2 million	$2.2 million	$4.4 million
B. Low Income Tax Reduction		$3.0 million	$3.0 million
C. Pass-Through Federal Tax Reductions	$4.6 million	$7.0 million	$11.6 million
Total Provincial Income Tax Reductions	**$6.8 million**	**$12.2 million**	**$19.0 million**
Total Federal Income Tax Reductions	$10.1 million	$12.0 million	$22.1 million
Total Tax Reductions on PEI	**$16.9 million**	**$24.2 million**	**$41.1 million**

(1) Provincial rate reduction and Low Income Tax Reduction effective January 1, 2000. Bracket measures effective July 1, 2000, with full-year application in 2001.

Source: Provincial Treasury Estimates

A. Prince Edward Island General Tax Rate Reduction

Effective January 1, 2000 Prince Edward Island's Personal Income Tax rate is reduced by a full percentage point, from the current 58.5 per cent to 57.5 per cent of Basic Federal Tax. This measure will reduce tax payable for each of Prince Edward Island's 66,300 taxpayers by a total of $2.2 million in 2000/01.

This rate reduction follows Prince Edward Island's first ever income tax rate decrease in 1999, when the general tax rate was reduced from 59.5 per cent to 58.5 per cent.

B. Low Income Tax Reduction

Prince Edward Island will introduce a Low Income Tax Reduction program, effective January 1, 2000, which will reduce Provincial Personal Income Tax for low income families, and eliminate it altogether in many cases.

The Low Income Tax Reduction will eliminate provincial income tax for an estimated 4,860 low income tax payers and provide benefit to total of 17,200 Island individuals and families. All told 26 per cent of Islanders who pay tax will benefit from this measure. The impact of this measure will be to reduce tax payable by $3 million in 2000/01.

The Prince Edward Island Low Income Tax Reduction is a non-refundable credit which is based on family size and combined family income. The value of the credit is the sum of :

a) $250
b) $250 for the spouse or equivalent-to-spouse
c) $200 for each dependent child;

It applies in full to families whose combined income is $15,000 or less and at a reduced rate for families with income in excess of $15,000. Each family calculates its maximum credit which is then reduced by 5 per cent of the combined family income in excess of $15,000. The credit applies up to the amount of provincial tax payable.

For example, a married couple with three children and a combined family income of $23,000 is eligible for a credit of $700 which is calculated as follows:

Table C.2 - Calculating the Low Income Tax Reduction - Credit Amounts
Married couple with three children, Combined Family Income of $23,000

		Wife Husband 3 Children		*Gross Credit*
Total credits for 5 family members	=	$250 + $250 + (3 x $200)	=	$1,100
minus		*5% of family income in excess of $15,000*		
Income reduction amount	=	5% x ($23,000 - $15,000)	=	- $400
Low Income Tax Reduction				$700

This married couple with three children and an income of $23,000 would pay approximately $663 in provincial Personal Income Tax in 2000 before the Low Income Tax Reduction. With the Low Income Tax Reduction in place, this family will apply its credit of $700 against the $663 in tax payable, to reduce their provincial income tax to $0.

Subject to confirmation by Canada Customs and Revenue Agency (formerly Revenue Canada), it is intended that Prince Edward Island's Combined Family Income will be calculated as Net Income (line 236) for single individuals or the sum of Net Income for married or common-law couples. It is further intended that the value of the credit will be transferable between spouses, so that any amount not used by one spouse may be used to reduce taxes payable by the other.

Further examples are presented below for a range of family types and income levels. Several examples are calculated for families with incomes greater than $15,000 to show how the credit reduction interacts with provincial tax payable.

Table C.3 - Low Income Tax Reduction Examples by Family Type and Income

Example 1 - Single person with no children
A single individual earning $15,000 with no children is eligible for the maximum credit of $250 that will reduce that person's typical provincial income tax payable from $583 to $333.

Example 2 - Single person with two children
A single parent earning $20,000 who has two children is eligible for a credit of $450 that will reduce that family's typical provincial Personal Income Tax payable from $408 to $0.

Example 3 - Married couple with two children
A single-earner family with two children and $22,000 in annual income typically pays $578 in provincial tax and so their credit of $550 will reduce their provincial income tax to $28.

Example 4 - Single senior with no dependents
A single senior with income of $15,000 will be credited $250 in Low Income Tax Reduction that will reduce his/her tax payable from a typical amount of $284 to $34.

There are some 32,300 tax filers who currently pay no provincial tax. With the Low Income Tax Reduction in place, this figure will rise to 37,200. Depending on family type, the threshold at which Islanders begin to pay tax will be significantly higher under the new program. For example, a single person living alone currently begins to pay provincial tax at an annual income of approximately $7,500. With the Low Income Tax Reduction, no tax will be payable below approximately $10,440 in annual income.

This tax measure will be of particular benefit to single parents, seniors and families with children. The Low Income Tax Reduction will provide tax relief to 42.7 per cent of all single parents and will eliminate provincial tax entirely for 11.2 per cent of this group. Slightly more than 50 per cent of all seniors on Prince Edward Island will benefit from the tax reduction. By

far the most broadly affected group of tax payers to benefit will be families with several children. The Low Income Tax Reduction will provide tax relief to 76.3 per cent of all families with more than two children.

Among tax payers with annual family incomes less than $25,000, 93 per cent will see provincial taxes reduced and 24 per cent will be removed from provincial income tax rolls.

C. Pass-Through Federal Tax Reductions

Prince Edward Island is committed to passing through the full benefit of tax reductions that were announced in the federal budget. The Province's lowered income tax rate of 57.5 will apply to the 2000 federal tax base and so tax payers will benefit both from federal tax reductions and induced reductions to their provincial tax payable.

Specifically, the impact of the upward revision to the Basic Personal Amount and income thresholds identified in the federal budget, as well as the reduction in the middle income tax rate from 26 per cent to 24 per cent in 2001, will be passed through to the full benefit of Island tax payers.

These tax reduction measures will form the basis of Prince Edward Island's Tax on Income system that will come into effect in 2001, as will be discussed below.

D. Combined Tax Savings

The impact of these tax reduction measures will vary with income and family structure. Table C.4 presents several examples of typical tax savings from 2000 budget measures.

Table C.4 - Combined Tax Savings, By Family Type and Annual Income: 2001

	Single Pensioner	Single Parent 1 Child	Married Couple 2 Children	
Income	$15,000	$18,000	$20,000	$45,000
A. General Rate Change	$11	$7	$9	$60
B. Low Income Tax Reduction	$250	$331	$251	-
C. Induced Provincial Changes	$23	$42	$42	$261
Total Provincial Reductions	**$284**	**$380**	**$302**	**$321**
Total Federal Reductions	$39	$72	$72	$448
Provincial & Federal Reductions	$323	$452	$374	$769

Source: Provincial Treasury Estimates

II. Tax on Income

Beginning in 2001, Prince Edward Island, and other provinces, will adopt a new approach to calculating provincial Personal Income Taxes that will enhance transparency of the tax system and allow the Province greater autonomy in devising income tax policy.

Prince Edward Islanders will continue to file a single Personal Income Tax return to Canada Customs and Revenue Agency (CCRA, formerly Revenue Canada), but the new tax return will specify provincial income thresholds, tax rates and non-refundable credits, such as the Basic Personal Exemption and Spousal Amounts.

The collection of income taxes by CCRA is governed by Federal Provincial Tax Collection Agreements and all provinces have the right to administer their own taxes if they so choose. However there are significant administrative costs involved with independent provincial administration. In addition there are major advantages to Canadians in having a common tax system across the country for both levels of government. This will continue under the Tax on Income system.

Under the present Tax on Tax system familiar to Canadians, provinces express their tax rate as a percent of Basic Federal Tax. In the case of Prince Edward Island, the rate was 59.5 per cent in 1998, falling to 58.5 per cent in 1999 and to 57.5 per cent in 2000. The Federal Government has agreed to administer provincial income tax as a percentage of Taxable Income rather than as a percentage of Basic Federal Tax. Under the new system Island taxpayers will see their true rate of provincial income tax on taxable income.

In addition to setting provincial income brackets and rates of tax on these brackets, Provinces will also be able to establish a distinct block of non-refundable tax credits, such as personal exemptions, to be multiplied by the lowest provincial tax rate. However all provinces will still be required to accept the federal definition of taxable income. The new system means that most federal tax changes will no longer result in automatic changes to provincial tax revenues.

Prince Edward Island Tax Rates and Thresholds - January 1, 2001

> *"In its move to a Tax on Income system, Prince Edward Island will adopt the federal income thresholds and rates that will be effective on January 1, 2001 and so ensure that the tax reductions for 2001 described in the federal Budget are passed on in full to Island tax payers."*
>
> ***- Hon. Patricia J. Mella, March 17, 2000***

To ensure that the move to Tax on Income in 2001 is revenue neutral for Island tax payers, the Government of Prince Edward Island will base its new provincial income tax rates and brackets on the rates and thresholds used by the Federal Government *effective January 1, 2001* as

specified in the Federal Budget of February 29, 2000.

A straight conversion of the current provincial Tax on Tax rate of 57.5 per cent to a system of provincial income tax brackets and rates is accomplished by multiplying federal rates by that same 57.5 per cent to determine the equivalent provincial rates. These figures are presented in Table C.5.

Table C.5 - Estimated [1] Income Tax Rates and Thresholds: January 1, 2001

Effective Federal Tax Brackets	Federal Tax Rate	Provincial Tax Rate	
		Calculation	Rate
$0 - $7,361	0%	0% x 57.5%	0%
to $30,544	17%	17% x 57.5%	9.8%
to $61,089	24%	24% x 57.5%	13.8%
above $61,089	29%	29% x 57.5%	16.7%

(1) The 2000 Federal Budget documents did not specify exact thresholds for January 1, 2001. The thresholds used here are based on the 2000 income thresholds and basic personal amount, increased by an estimated inflation factor of 1.8%.

Source: Provincial Treasury Estimates

Prince Edward Island will mirror the federal income tax system entirely in its first year of Tax on Income. The Province will maintain its new Low Income Tax Reduction and its previously established credits and surtax under the new system. Prince Edward Island will accept the January 2001 federal Basic Personal Amount of approximately $7,361, below which no tax is payable. Thus Prince Edward Island will have three taxable income brackets with a low bracket rate of 9.8%, a middle bracket rate of 13.8% and a top bracket rate of 16.7%.

Prince Edward Islanders will first see the new provincial Tax on Income forms in the spring of 2002 when they complete their tax returns for the 2001 Taxation Year.